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ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

REGINA

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TORONTO, ONTARIO

C O R R I G E N D U M

In Volume 11, February 17th, at page 1662, middle of the page: substitute "merely transports" in place of "may re-transport" so that the sentence reads "I gather from these facts that S. and M. merely transports . . ."

In Volume 11, February 17th, at page 1662, 7th line from bottom: insert the word "which" between the words "Company" and "apparently".

In Volume 11, February 17th, at page 1663, 6th line from bottom: substitute "...Antioch is expected to cost" in place of "Antioch to the coast".

In Volume 12, February 18th, at page 1789, 2nd line from bottom: substitute "and variable cost, I think you used the terms demand and commodity costs" in place of "in-variable gas ... gas".

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION

ON

ENERGY

Hearings held at Regina,
commencing Monday, April
14, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	--	Chairman
Mr. J.L. Levesque	--	Member
Mr. G.E. Britnell	--	Member
Dr. R.D. Howland	--	Member
Mr. L.J. Ladner, Q.C.	--	Member
Dr. R.M. Hardy	--	Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	--	Secretary to the Commission.
Major N. Lafrance	--	Assistant Secretary to the Commission



APPEARANCES:

Representing the Government of Saskatchewan:

Hon. J.H. Brockelbank	- Minister of Mineral Resources.
Hon. R. Brown	- Minister in Charge of Power Corporation.
Mr. J.G. Gebhard	- Appearing on behalf of the Government of Saskatchewan.
Mr. A.J. Williams	- Division of Petroleum and Natural Gas.
Mr. Davis Cass-Beggs	- General Manager, Power Corporation.
Mr. D.H.F. Black	- Director of the Industrial Development Office.

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-15-1	Estimate of Throughput and Production of Steelman Gas Plant.	3146
R-15-2	Contract between Saskatchewan Power Corporation and Phillips Petroleum Company and other companies dated November 15.	3146
R-15-3	Contract between Canadian Export Gas Limited, typical of contracts of Hatton-Many Islands area	3146



APPEARANCES:

Page

Presenting Supplementary Brief of the Canadian
Petroleum Association:

Mr. M.A. MacPherson p.3177

Representing Woodley Canadian Oil Company:

Marlin E. Sandlin	- President, Woodley Canadian Oil Company
James A. Smith	- Vice-President, Woodley Canadian Oil Company.
E.L. Semple	- President, Great Northern Oil Purchasing Company.
John S. Black	- President, South Saskat- chewan Pipe Line Company.
A. Powell	- Accountant, South Saskat- chewan Pipe Line.

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EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-15-4	Submission of the Woodley Canadian Oil Company.	3182
R-15-5	Resolution H.S.R. No. 379, April 17, 1957.	3215
R-15-6	Resolution H.S.R. No. 25, November 11, 1957.	3215
R-15-7	Letter dated May 16, 1957, from Great Northern Oil Company to Direc- tor of the Office of Defence Mobiliza- tion, Washington, D.C.	3230
R-15-8	Letter from Woodley Petroleum Company dated March 10, 1958 addressed to Mr. Secretary, and attached thereto draft of executive order and comments of proposed executive order.	3248



Tuesday,
April 15, 1958.

---On resuming at 10.00 a.m.

---Mr. Commissioner Levesque was not present.

MR. BROCKELBANK: Mr. Chairman, before we commence back with the brief again, I would like to make a suggestion or two. First, that we carry on through the rest of the brief but I regret very much that the general manager of the Saskatchewan Power Corporation has not been present yet but he will be back in the city this afternoon; he will be here tomorrow. In going through the rest of the brief, if we come on questions, which he is particularly fitted to deal with, I wonder if we could store them up and have him in at some time before you leave and go over these questions and maybe some other matters might arise. Mr. Brown, the Chairman of the Board of Directors of the Power Corporation and Minister in Charge has been with the Corporation for a comparatively short time and, in any case, there are many technical questions in regard to rates and prices and so forth which the general manager, who is a very well qualified and well experienced engineer could answer much better.

The other request I would make would be that when we come to the end of our brief that I might be allowed to summarize quite briefly. I feel my responsibility rather heavily. I am not used to quite so much responsibility and not only am I interested from the angle of my Department of Mineral Resources, but also



I have recently been put as a Director on the Board of the Saskatchewan Power Corporation and the fact that the Premier and Senior Minister are absent, I must accept some responsibility for the government point of view. Therefore, I would like that privilege of making a short summary when we come to the end of our brief.

THE CHAIRMAN: Certainly, Mr. Minister. Supposing we carry on with the brief, as you suggest, and then, when questions are asked you or Mr. Brown just simply say whether you prefer to have those questions answered by Mr. Cass-Beggs. Is he going to be here through the rest of the hearing?

MR. BROWN: He will be back in the city about 1.15 and could be available for the afternoon sitting.

THE CHAIRMAN: Today?

MR. BROWN: Yes.

THE CHAIRMAN: Certainly, we will, there is no question about that. I think yesterday we got as far as Rates to Consumers on page 82; perhaps you will carry on, will you, sir?

MR. BROCKELBANK: Pardon me, Mr. Chairman, and Mr. Brown, but someone asked some questions about sulphur yesterday and we have a sheet here with the estimate of throughput and production of the Steelman Gas Plant which gives, among other things, the sulphur production and it might just be of interest to distribute copies of this to the people concerned.

THE CHAIRMAN: Could we put it in as an exhibit, Mr. Minister?

MR. BROCKELBANK: Yes, certainly it could



go in. You will notice, this is a copy from the submission to Oil and Gas Conservation Board By Provo Gas Consumers Limited, May, 1957.

MR. BROWN: Yesterday afternoon, Mr. Chairman, there was a question about some typical contracts with producers and I have one here in the Brock-Colville area and also one in the Many Islands field. I would be very happy to table these.

THE CHAIRMAN: I think we will put them in as separate exhibits.

MR. PATTERSON: Might we then enter the Estimate of Throughput and Production of Steelman Gas Plant as Exhibit R-15-1.

---EXHIBIT NO. R-15-1: Estimate of Throughput and Production of Steelman Gas Plant.

MR. PATTERSON: A copy of the contract between Saskatchewan Power Corporation and Phillips Petroleum Company and other companies dated the 15th of November which is typical of contracts in the Brock-Colville area.

---EXHIBIT NO. R-15-2: Contract between Saskatchewan Power Corporation and Phillips Petroleum Company and other companies dated November 15.

MR. PATTERSON: A copy of a contract between Canadian Export Gas, Limited which was typical of contracts in the Hatton-Many Islands area as R-15-3.

---EXHIBIT NO. R-15-3: Contract between Canadian Export Gas, Limited typical of contracts of Hatton-Many Islands area.

MR. BROWN: 8. Rates to Consumers



Gas rates are designed in such a manner as to allocate costs equitably by type of customer, and to provide for a small surplus which is plowed back into the expansion of the system. One of the important items of annual cost is the depreciation of assets at the assumed life expectancy of thirty years.

The net operating income of the Saskatchewan Power Corporation for the years 1955 to 1957 is shown below. The return on invested capital varies slightly from year to year, barely exceeding the interest which the Corporation pays on borrowed capital (approximately 4.50 - 4.75 per cent per annum).

Table 21

Percentage Return on Invested Capital of the
Saskatchewan Power Corporation Gas System

<u>Year</u>	<u>Operating Income</u>	<u>Invested Capital at December 31</u>	<u>Percent Return on Capital</u>
1955	\$ 906,468	\$17,650,000	5.1
1956	1,326,327	27,750,000	4.8
1957	1,875,863	37,500,000	5.0

There have been two rate reductions since the inception of the natural gas distribution system. The first, in the spring of 1956, amounted to 5 per cent, and another in the fall of 1956 amounted to 10 per cent. Cost of service per customer should diminish as customer saturation increases, thus enabling the Saskatchewan Power Corporation to make future reductions in their rates. The possibility of future economies in an expanding gas system, however, must be weighed against the counter-balancing factors of continually increasing costs of materials and construction, and the possibility of a higher supply price for gas to the Corporation. A more detailed discussion of



S.P.C. rates for natural gas is included in Appendix XI.

9. Savings to Customers

The savings accruing to Saskatchewan customers through use of natural gas instead of competitive fuels are approximately as follows:

	<u>Domestic</u>	<u>Commercial</u>
Oil	20 - 40%	25 - 45%
Coal	30 - 50%	20 - 40%

This saving is based on the cost of providing the equivalent degrees of heat. The saving is due partly to use of more efficient heating equipment and partly to comparative cost per B.T.U. It will be noticed that in the domestic field, a greater percentage saving is achieved by switching from coal to gas than switching from oil to gas, while the reverse is true in the commercial field. This apparent anomaly results from the greater age and inefficiency of domestic coal heating units.

C. FORECAST OF DEVELOPMENT, 1958 - 1985

1. Estimate of Customers

In order to estimate the future load on the provincial gas system, the number of customers and their consumption was projected for each year to 1985. The basis on which the number of future domestic customers was forecast, is the likely number of households or dwelling units in urban communities in future years. Two conditions were assumed in arriving at a growth rate factor: first, that the movement from rural areas to urban centres will continue, and second, that the number of households will increase slightly faster than population because of continued improvement in living standards resulting in fewer persons per



dwelling unit. Estimates of future numbers of households were calculated at different rates of growth: for cities 4%, for greater towns 3%, and for all smaller towns and villages combined 2%.

To arrive at the number of residential customers connected at the end of each year, the saturation percentage previously quoted was applied to the number of dwelling units in each community group and projected. On this basis the saturation level was estimated to be 75 per cent in the tenth year, and 85 per cent in the 30th year.

The number of commercial customers was based on a ratio of commercial to residential customers. This was obtained from a Saskatchewan Power Corporation sample of serviced communities. Industrial customers were enumerated as a constant percentage of total customers. The total number of all gas customers for different years was estimated to be 99,900 by 1965, 174,500 by 1975, and 281,000 by 1985.

2. Estimated Consumption at Peak Demand

The annual gas consumption related to size of centers and classes of customers was estimated on the basis of Saskatchewan Power Corporation experience regarding the average level of the present consumption. Estimates of the total annual consumption, the daily peak demand and the cumulative total consumption for the years 1965, 1975 and 1985 at 50 per cent load factor are as follows:



Table 22

<u>Year</u>	<u>Annual Consumption</u> MMCF	<u>Daily Peak Demand</u> MMCF	<u>Cumulative Total Consumption from 1956</u> MMCF
1965	43	237	265
1975	77	420	874
1985	124	679	1,886

The above totals provide for moderate use of natural gas in generating plants. It is estimated that power generation will account for 50 per cent of industrial consumption in the immediate future, leveling off to some 30 per cent by 1985. Approximately 400 MMCF will be used for power generation in the entire period 1956-1985.

3. Provision of Future Gas Supply

Earlier in this submission (Part I, Section C, Paragraph 4 and Appendix X) estimates were given of both proven and possible dry and oil field gas reserves in Saskatchewan. A summary of those estimates is repeated here for convenience.

Table 23

Present proven recoverable dry gas	591 billion cuft.
Present proven recoverable oilfield gas	445 " "
Total	1,036 " "
Possible additional recoverable dry gas	140 " "
Possible additional recoverable oil-field gas	1,700 " "
Total	2,876 " "

When these estimates of reserves are compared with the estimates of consumption given above, it is evident that the proven reserves fall far short of the amounts necessary to provide for consumption needs to 1985. The extent of the deficiency is revealed in the following table. The total cumulative consumption figure for 1985 has been increased from 1,886 MMCF



to an even 2,000 MMMCF to allow for system losses of approximately six per cent. This comparison is based on the assumption of minimum use of natural gas for secondary uses such as power consumption and industrial uses and on the minimum period of depreciation.

Table 24

30 year Cumulative Consumption including losses	2,000,000,000	MCF
Proven Recoverable Reserves	1,036,000,000	MCF
Deficiency	964,000,000	MCF
Less: Alberta Supplies Secured by Agreement	223,000,000	MCF
Deficiency	741,000,000	MCF
Less: Power Generation	330,000,000	MCF*
Deficiency	411,000,000	MCF

* Represents 1/3 of Industrial Consumption and 11.5% of total requirements for power generation in the period of 1956 - 1985.

It must be pointed out, however, that the year 1985 represents the 30 year depreciation of only the original capital investment.

It does not cover depreciation of capital additions to the system made after the first year. Therefore, in order fully to depreciate the system developed by 1985 either no new customers may be added by the S.P.C. after 1970 or depreciation rates must be substantially increased. Alternatively the minimum period over which the total system must operate in order to justify the 30 year depreciation figure must be increased to approximately 45 years, assuming that no increased loads are permitted after the 30 year period. Consequently, the continued operation of the system for this additional fifteen year period will require an additional reserve of approximately 2 trillion cubic feet, or a total reserve of approximately four



trillion feet.

The comparison of reserves and consumption given in the table above is furthermore based on proven recoverable reserves as well as a very minimum use of gas for power generation. If possible recoverable reserves, as indicated earlier in Part I of the submission are taken into account, if somewhat greater use is made of gas for power generation and if the depreciation is calculated on the 45-year instead of the 30-year period, for the reasons indicated, the relationship of reserves to consumption is as follows:

Table 25

45 year Cumulative Consumption including Losses	4,000,000,000 MCF
Plus: Additional Power Generation Use	1,070,000,000 MCF *
Total Requirements	<u>5,070,000,000 MCF</u>
Less: Possible Recoverable Reserves	<u>2,876,000,000 MCF</u>
Total Deficiency	<u>2,194,000,000 MCF</u>

* Represent additional 38.5 per cent of power generation in the Province.

In view of the preceding evaluation it is understandable that the Corporation will have to secure additional supplies of natural gas. There are several possibilities.

The first is additional Saskatchewan discoveries of either dry gas or wet gas fields or oil-field gas gaps in Saskatchewan beyond anything that is now foreseen. Another is the obtaining of additional gas from interprovincial pipelines. This may depend on such things as whether or not public regulations of pipeline tariffs makes it economic, the rate at



which reserves are proven in Alberta and the size and location of possible storage fields. In view of the reserves now dedicated to TCPL, it appears that the most likely way to obtain really significant quantities of gas would be a purchase arrangement with the Alberta Trunk Line to purchase and transmit it in Saskatchewan Power Corporation facilities. A remote possibility, which has yet to be proven feasible in an operation of the magnitude that would be required, is the gasification of some of the enormous lignite reserves in southern Saskatchewan. Another development which would help is any increase in peak shaving equipment, which would prolong the period during which gas can be offered to consumers at a marked saving over other fuels.

4. Estimate of Future Capital Investment

Within the limits of present knowledge, capital expenditures for future years for transmission, distribution and general outlay items have been estimated in the table below. It should be pointed out that the projections are made on the basis of present price levels and probably err on the conservative side. Should the future cost of construction materials be higher than anticipated, both the cumulative total investment and the per customer cost must be revised upwards accordingly.



Take B
MC/jt
15/4

Table 26

Cumulative Total Investment, 1965, 1975 and 1985

Year	Transmission Facilities	Distribution Facilities	General Administrative and other Capital
1965	\$38,400,000	\$38,900,000	\$ 4,900,000
1975	48,400,000	65,400,000	8,700,000
1985	50,000,000	105,300,000	14,000,000

	<u>Total Capital</u>	<u>Total Capital per Customer</u>
1965	\$ 82,200,000	\$824
1975	122,500,000	702
1985	169,300,000	603

D. EXPORT OF NATURAL GAS FROM SASKATCHEWAN

It is evident from the previous estimates that the demand for natural gas within Saskatchewan is likely to exceed the foreseeable supply by a considerable margin. There will, therefore, be a provincial market for all the gas that is apt to be discovered in the province and more. If anything Saskatchewan will be a net importer of natural gas, unless, of course, there should be discoveries of natural gas beyond anything which has been contemplated as possible in the calculation of the above estimates.

In the period of five years from the first deliveries of gas to the City of Saskatoon, in the fall of 1953, to the fall of 1958, the Saskatchewan Power Corporation will have constructed a grid covering practically the whole of the Province of Saskatchewan. Relatively small extensions east of Regina and east of Prince Albert, and a link between



the Northern and Southern Systems in 1959 will virtually complete the grid. No sizeable amount of gas could be found within the Province, south of Latitude 54, that could not be economically transmitted to the Saskatchewan Power Corporation's grid. A study of the increasing load requirements for Saskatchewan further indicates that it is unlikely that such a source of gas would be found without it being possible to utilize it within the Corporation's system.

In the event that the total reserves of the Province are proven adequate for export, and on the assumption that the Corporation does not provide a suitable market by developing supplementary uses, storage, or purchase of gas in the ground, the Corporation's gathering and transmission grid will form an admirable vehicle for handling all gas that may be made available for export.

Since the Corporation's system is province-wide, and its need for gas purchases for the system are also province-wide, it does not appear likely that any single field would be dedicated in its entirety to export nor is there any probability that single fields will be so situated as to make this economically feasible. Therefore at such time as export is permitted, there would likely be a scheme for prorating export quantities among all gas producers in the Province, handled through the Corporation's facilities. The Corporation's system in Saskatchewan could function similarly to the Alberta Trunk System. Whether the Corporation would buy the gas and resell it for export or simply act as a gathering and transmitting agency would remain to be determined. It



is to be anticipated that the Saskatchewan Power Corporation will have ample capacity to handle export at least on an off-peak basis. Should export become feasible on such a scale that it could be contemplated at the times of peak load, the economics involved would presumably support the expansion of the facilities.

Where it is economically advantageous to do so, the Corporation would agree to make its facilities available for an exchange whereby gas from outside the Province, not normally dedicated to meeting S.P.C. requirements, would be brought into the system and in exchange an equivalent amount of gas would be released at a point convenient for export.

The Corporation has, from time to time, endeavoured to negotiate for the purchase of gas gathered and delivered to a single point in a gas field but has failed to persuade the producer to undertake the gathering operation. As a result, the pattern is now established that the Corporation purchases gas at the wellhead and installs the gathering system and operates the system itself.

While this is satisfactory as far as the Corporation is concerned, it must be recognized that the people of the Province have an important investment in gathering systems and transmission lines connecting, in certain cases, with only a single gas field. Their interest must be protected. To this end gas must be produced from any such field in such a way that the field gathering system and transmission line will remain in operation until



they are depreciated at the Corporation's standard thirty-year rate. Some fields may, of course, have to be depleted in a shorter time but in these cases the price paid for the gas should be such as to provide for higher depreciation rates on the gathering facilities, to make it equivalent to the standard rate of depletion. In any event, the rate of depletion and the rate of depreciation should be so related that the whole cost of the field gathering system and transmission lines may be recovered from the sale of the total volume of gas which can be taken from the reserve.

It may be argued by producers that a more rapid rate of depletion should be allowed in order that they can recover their costs of development. There appears to be comparatively little basis to this argument. The Saskatchewan Power Corporation has hitherto offered a better wellhead price than has been available in Alberta and has provided an immense and increasing market for natural gas. This has proven a very effective incentive to producers to develop their reserves and there are no potential producers of any economic volume today without an adequate market in the Province. Moreover the dedication of reserves to our domestic load almost universally contemplates a thirty-year depletion period. While contracts entered into by the Corporation have, in general, been for twenty years, almost all producers would contemplate renewing them for a further ten years.

Past experience would seem to indicate that the Corporation can offer a more attractive



price for gas than can be obtained in the export market, taking into account the costs of gathering, transmitting and compressing the comparatively small amounts of gas that would be exportable from any particular field. The gas should be retained to meet the long term needs of the people of Saskatchewan, but at the same time it is recognized that the interests of the producers, who have spent substantial sums on finding gas, must be protected. If therefore, a case is made that the government's policy of conserving the gas for use in the prpvince would create an inequitable situation with respect to producers, the Corporation would be prepared to negotiate for the purchase of reserves in the ground in order to provide the producers with a more rapid return and the Corporation with a more secure supply.

E. REGULATION AND CONTROL OF INTER-PROVINCIAL GAS PIPE LINES

Within the province of Saskatchewan there is a regulatory body, the Local Government Board, competent to regulate both wellhead and retail prices for gas. There is no corresponding regulatory authority for inter-provincial lines. The Board of Transport Commissioners, which is given authority under the Pipe Lines Act to declare inter-provincial oil pipe lines common carriers and to regulate their tariffs, is given neither power with respect to inter-provincial gas pipe lines. An examination of the experience of the Saskatchewan Power Corporation in negotiating with Trans-Canada Pipe Lines Limited, and of Trans-Canada's rate structure, suggests the need for such federal control and regulation.



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In an earlier section of this part of the submission (Section A, 3) reference was made to the fact that when the Saskatchewan Power Corporation negotiated with Trans-Canada Pipe Lines for the purchase of gas, it was found that the latter's rates were so high that it was more economic for the Corporation to build and operate its own transmission facilities from the Hatton-Many Islands-Medicine Hat area, in spite of the fact that these facilities would substantially parallel the Trans-Canada line. The most favourable terms offered by Trans-Canada were not competitive with the alternative of building 251 miles of 14 and 12 inch pipe line to bring gas from this field to Moose Jaw and Regina.

This duplication of transmission line facilities in the southern part of Saskatchewan was economically sound from the point of view of the Saskatchewan Power Corporation. From the national point of view, however, it might be argued that this construction of parallel pipe lines represents a loss to the Canadian economy as a whole. Had the S.P.C. transmission line not proven necessary because of Trans-Canada's discriminatory rate policy, the capital investment involved might have found alternative use in developing other Canadian resources.

The published rate schedules of Trans-Canada Pipe Lines indicate very clearly the marked discrimination in rates against the prairie region which resulted in the above situation.



Table 27

Trans-Canada Rate Schedules by Zones

ZONE	<u>50% Load Factor</u>		<u>75% Load Factor</u>	
	<u>Demand</u>	<u>Commodity</u>	<u>Demand</u>	<u>Commodity</u>
	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>	<u>Charge</u>
	(per MCF/month)		(per MCF/Month)	
Saskatchewan	\$ 1.00	19.5¢	\$ 1.00	18.0¢
Manitoba	1.90	22.5	1.90	20.0
Western	2.90	27.5	2.90	25.0
Northern	4.10	32.0	4.10	29.5
Central	4.40	32.5	4.40	30.0
Eastern	5.05	32.5	5.05	30.0

<u>90% Load Factor</u>	
<u>Demand</u>	<u>Commodity</u>
<u>Charge</u>	<u>Charge</u>
(per MCF/month)	
Saskatchewan	\$ 1.00 17.5¢
Manitoba	1.90 18.0
Western	2.90 23.0
Northern	4.10 27.5
Central	4.40 28.0
Eastern	5.05 28.0

Source: Trans-Canada Submission to Saskatchewan Power Corporation, March 21st, 1957.

Table 28

Assessment of Trans-Canada Gas Pipe Incremental Transportation Charges by Zones 1/

Charges per million BTU per 100 mi.

<u>Load</u>	<u>Distance</u>	<u>50% Load</u>	<u>75% Load</u>	<u>90% Load</u>
<u>Centre</u> ²	<u>(Miles)</u> ³	<u>Factor</u>	<u>Factor</u>	<u>Factor</u>
Fort William	438	2.64¢	2.14¢	1.97¢
Winnipeg	355	2.51	1.67	1.07
Sudbury	552	2.24	1.77	1.61
Toronto	260	0.95	0.70	0.62
Montreal	335	1.27	0.85	0.71

- 1/ Derived from a comparison of rates applicable to neighbouring zone centres.
- 2/ No zone price is of course quoted for Alberta. Regina, Winnipeg, Fort William, Sudbury, Toronto, and Montreal are taken as load centres of the zones.
- 3/ Distances quoted relate to the distance from the preceding load centres, with Winnipeg having Regina as a base point of comparison. These are railway distances and may therefore differ slightly from actual pipeline distances.



Table 29

Assessment of Trans-Canada Gas Pipe Transportation
Charges for Various Load Centres from Base Point-Regina

Load Centre	Distance from Regina	Charges per million BTU per 100 mi.		
		50% Load Factor	75% Load Factor	90% Load Factor
Winnipeg	355	2.51¢	1.67¢	1.07¢
Fort William	793	2.58	1.93	1.57
Sudbury	1,345	2.44	1.87	1.59
Toronto	1,605	2.20	1.68	1.43
Montreal	1,940	2.04	1.53	1.30

While in the western section the transportation price per MCF on 50% load factor, from Regina to Sudbury is 2.44¢ per 100 miles, in the eastern section the price per 100 miles from Sudbury to Montreal averages 1.13¢. In other words the transmission charges in the prairie region are more than double those in the eastern region. This discrimination is even more striking when consideration is given to the larger diameter of pipe in use on the prairies.

It is considered essential that a federal system of rate control be established for the inter-provincial pipe line, this function to be exercised by an appropriate agency such as the Board of Transport Commissioners.

Since the Trans-Canada Pipe Line passes through provinces which are both producers and users of natural gas it is important that it should operate as a common carrier within those provinces. It is also desirable that it should operate throughout the system as a common carrier. The cost could then be established of moving a unit of gas through a unit of distance in the then existing facilities and this cost could be



a basis for all rates established.

Abundant arguments exist that Trans-Canada Pipe Lines should be a publicly-owned utility. Of primary interest both to producers and to consumers of gas is the fact that a publicly-owned pipeline can be operated with greater economy. It is established by the experience of organizations such as the Ontario Hydro-Electric Power Commission and the various other provincially-owned utilities including the Saskatchewan Power Corporation, which distribute electricity and gas, that publicly-owned utilities, operating on an at cost basis, provide significantly lower operating cost than privately-owned utilities. These lower operating costs arise not only through the substitution of government-backed fixed interest bonds for relatively high dividend risk capital but also through the acceptance of lower depreciation rates and in some cases exemption from income tax. These factors could amount to a very considerable reduction in the cost of transmitting a unit of gas from Alberta to eastern Canada. Public ownership would provide a better guarantee of stable or increasing prices to gas producers, a lower price to consumers, and an increasing market for gas that would react again to the advantage of producers.

In a publicly-owned inter-provincial pipe line it would appear to be possible to separate the functions of buying and selling gas from the functions of transporting gas. The pipe line (publicly-owned and established as a common carrier with its rates subject to federal control) would convey gas from



any producer to any market. The buying and selling function then would be conducted directly between the distributing utility and the gas producer, and the cost of transportation would be known to both.

Since the control of natural resources to be handled by such a common carrier is vested in the provinces there is a strong argument for the participation of provinces as shareholders holding equity capital in such a publicly-owned gas transporting utility. It would, no doubt, need the financial help of the Federal Government, perhaps as bond holder.

While an inter-provincial body might control and operate the inter-provincial pipe line, presumably with each province accepting responsibility for the physical operation of the portion within its borders, (generally speaking, at low cost since each province would have available utilities of which it could contract for the performance of those necessary functions), the federal government would retain a control of rates through the Board of Transport Commissioners or other suitable rate control authority. It may be noted that the provision of long-distance telephone and microwave service across Canada is organized on a basis not dissimilar to that suggested here.

THE CHAIRMAN: Thank you very much, sir. There is a lot of material there and food for thought.

MR. BROWN: Yes.

THE CHAIRMAN: You compare the public ownership of Trans-Canada or a pipeline with a telephone or micro-wave. You speak of no taxation and



that sort of thing. Do you think it is really comparable? Your gas pipeline does not go from Vancouver to Halifax. There are other provinces that would be interested I am sure in exemption from tax and ownership by the Provinces through which the pipeline goes. Does it really seem practical to you?

MR. BROWN: There is some similarity between the operation, I think particularly of the micro-wave system and the telephone system where they have an organization in which each Province participates. I think there are certain advantages accruing from that sort of arrangement which might be adaptable to the situation of an inter-provincial pipeline.

MR. BROCKELBANK: Mr. Chairman, on the question of taxation which you raised just now, even in the telephone set-up there is not equity across Canada because in some Provinces they do have privately-owned Telephone Companies, which pay income tax, but it is a privilege of every Province as an emanation of the Crown to be exempt from taxation. Of course, we can exercise no compulsion on any Province to take advantage of that if they don't want. This question of taxation is definitely a right and privilege to which any Province is entitled.

THE CHAIRMAN: You speak also of the rate structure --

MR. COMMISSIONER LADNER: Mr. Minister, on the question of taxation as a body responsible for Canada at large, say in the provinces, to what



extent do you think the Crown Corporations or Institutions should take advantage of tax exemptions? If all economic activities emanated from the Crown, let us say in the right of the Province, then they would not be exempt from taxation, income tax as I refer to it. The problem would then result what would the Federal Government do for revenues? Sooner or later the expense of taxation has to fall upon the people and upon the producer.



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MR. BROCKELBANK: Mr. Chairman, in the first place I would consider the question to be purely hypothetical at this stage, but I would point out that if this happened it could very well result in greatly increased personal incomes, which could very easily take up any slack that would be found.

MR. COMMISSIONER LADNER: You think that would be better?

MR. BROCKELBANK: Well, I am interested in personal living standards of the people of Canada and if there is a device, and I think, for example, our Saskatchewan Power Corporation has made a contribution to the personal incomes of the people of this Province in cash -- if not in cash, in kind, for sure, so that their standard has improved, and when you improve the standards of living of people, you improve their incomes and you have a taxation field there.

We do not need to kid ourselves into thinking that the corporation tax paid by a corporation does not represent wealth that is created generally by the people of Canada.

MR. COMMISSIONER LADNER: Well, Mr. Minister, do you not say that the taxation paid by corporations is an indirect way of taxation on the individuals, because the individuals own the corporation, so you ultimately come back down to the individual and his productive capacity.

MR. BROCKELBANK: Yes, it is a case of productive capacity, and that is a point I was trying to make, that the people in Canada who, in various activities, create the wealth, the gross national production, are still the people who make



possible the paying of corporation income tax as well as personal income tax, so I do not think any fear in that respect with regard to tax sources is well founded. It is perfectly legitimate, of course, for a Crown corporation to make a profit which would pay the people of that community for their venture in going into that business.

THE CHAIRMAN: Well, I think the question of taxation is one of the few things omitted from the Terms of Reference of the Commission.

MR. BROCKELBANK: It is interesting.

THE CHAIRMAN: I agree.

Mr. Minister, I suppose if you followed the reasoning in the latter part of this brief to its logical conclusion and had a regulatory authority which established a fair and proper rate base for an inter-provincial gas line and a fair and reasonable rate of return on that rate base, that you would still be against export because the rate base would be so high, having regard to the increase in the cost of gas to that company due to export, that you would still be against buying from it, is that right?

MR. BROWN: I think that would be correct.

THE CHAIRMAN: In other words, does not following your brief through mean, from a practical point of view, that Saskatchewan has no contemplation whatsoever in purchasing gas from the Trans-Canada Pipe Lines?

MR. BROWN: Well, that is not quite correct. We already do purchase gas from Trans-Canada Pipe Lines.

THE CHAIRMAN: From Trans-Canada?



MR. BROWN: Yes. We have a contract with them at the present time.

MR. BROCKELBANK: There is no doubt, Mr. Chairman, that where consumption grows and our rate of discovery and development does not exceed our moderate estimate of possibilities, we will have to purchase more.

THE CHAIRMAN: And you will have to pay a higher price, and you can expect to pay a higher price than you would pay to your own producers and bring it through the Saskatchewan Power Corporation's lines, am I not correct, because the price at the wellhead of the gas which Trans-Canada is going to have to purchase will be substantially higher, as I understand it, than what Saskatchewan Power Corporation is paying to the producer at the wellhead in the Province of Saskatchewan and you have the additional transportation charge and, presumably, a higher return on the rate base than the 4 1/2 per cent return which is on a no-profit basis, really, which you allow in your rates for Saskatchewan Power Corporation, so you are going to have to buy gas, if you need it, at a higher rate.

MR. BROCKELBANK: Well, that is one of the things we are afraid of.

MR. BROWN: That is a problem we are faced with.

MR. BROCKELBANK: I do not think we should just assume that the wellhead price for gas which goes into the Trans-Canada pipelines will be higher than the wellhead price paid in Saskatchewan, and that is one of the questions I would like Mr. Cass-Beggs to deal with, all those questions of



prices.

THE CHAIRMAN: My recollection of the price schedule that was put before us in Calgary by Trans-Canada was that they had to revise their prices and revise their schedules, and I think this was the third schedule, and is it not 14¢?

MR. COMMISSIONER HARDY: No. It was Alberta and Southern which started at 14¢, sir. It was impressed upon us at Calgary that Trans-Canada was no longer able to purchase gas at 10¢ on a 90 per cent load factor.

I cannot understand something there. There seems to be a discrepancy between the information which we were given in Calgary and the statement on page 89 that your wellhead price in Saskatchewan is higher than that being paid in Alberta, but that would be no doubt one of the things we could clear up tomorrow.

MR. BROWN: That is a situation, quite frankly, that we are not too familiar with, as to exactly what the situation is in Alberta with respect to prices by Trans-Canada. We hear there are some upward revisions in price and it may be that this submission now no longer holds; but I would not be prepared to say until we had further information on exactly what was being paid.

MR. COMMISSIONER HARDY: I think your figure of 14¢ is perhaps the rate that gas is being signed up for in Alberta right now for export supply.

THE CHAIRMAN: Yes. My recollection is that Trans-Canada, in its schedules, was coming up closer to that.

MR. PATTERSON: Mr. Chairman, on that



particular point, the difference that exists between those two rates is, to some extent, made up by the fact that Saskatchewan Power Corporation puts in its own gathering and processing, which adds something to the cost of gas to them, and Alberta and Southern and Trans-Canada, in that case the gas is cleaned, processed and gathered, and perhaps Mr. Cass-Beggs could give us an idea as to the figure on gathering and processing, which may be 3¢ to 4¢, so perhaps there may not be, perhaps, too much of a spread.

MR. BROCKELBANK: Mr. Patterson, the prices quoted in Alberta are not wellhead prices?

MR. PATTERSON: No.

MR. COMMISSIONER HARDY: Do you not make a rebate or is there not a cut-back on this 10¢ price for the cost of cleaning the gas?

MR. BROWN: I did not quite get that.

MR. COMMISSIONER HARDY: Do you not make a charge which constitutes a reduction on this 10¢ rate if you are required to clean up the gas that you buy?

MR. BROWN: No.

MR. COMMISSIONER HARDY: That is not correct?

MR. BROWN: Not correct.

MR. BROCKELBANK: Mr. Chairman, on this same question of possible prices we might have to pay for gas, I would like to emphasize the importance of equitable rates for transportation of gas. It is demonstrated in these Tables, Table 27, 28 and 29, and, as I have intimated before, we feel, in Western Canada, a bit sensitive about transportation rates of various kinds, including freight rates, and we



see here a possibility of getting some more of the same medicine.

THE CHAIRMAN: Well, let us put it another way: if you have a regulatory authority and the rate base is determined and a fair return on that rate base is permitted, and the tariffs are filed and approved, surely then, as a province, you would not object to the rate being charged, would you?

MR. BROCKELBANK: Not if it is fairly based, but you just cannot -- I cannot believe, and I do not think you can believe, that the cost of transporting a unit of distance in Northern Ontario is lower than that same cost on the Prairies.

THE CHAIRMAN: Well, I do not know. I am not an expert, but it certainly has been expressed that the longer the haul and the greater the volume and throughput, then the less gas in the end, at the far end; but I am not an expert about it. I have heard that theory expressed.

MR. BROCKELBANK: I think we have to recognize, Mr. Chairman, that putting oil or gas into a line and taking it out, even if you only moved it 10 feet, gives you an initial cost, and I think we have to recognize that; but I think these rates go beyond that principle.

MR. BROWN: If it is okay with the Commission, Mr. Chairman, I would like to have this discussed further at the time that Mr. Cass-Beggs, the general manager, is here. He has put a considerable amount of work on this and I think he can put up some pretty strong arguments against the viewpoint which you have just expressed.



THE CHAIRMAN: Fine. From the point of view of the Commission, of course, we will express no view with respect to Trans-Canada's rates, in the absence of Trans-Canada.

MR. BROWN: No. I mean with regard to the general question.

MR. COMMISSIONER BRITNELL: Mr. Chairman, reverting again, for the moment, to a comparison of Saskatchewan wellhead prices and Alberta wellhead prices, do I understand that at the present time the Saskatchewan Power Corporation is buying some gas in the Province of Alberta on a wellhead basis?

MR. BROWN: We are not actually drawing any from Alberta at the present time. We are paying for our gas under our contract with the Hatton-Many Island-Medicine Hat field.

MR. COMMISSIONER BRITNELL: I was wondering if any of that gas from the Hatton-Many Island-Medicine Hat field was based on contracts with producers of gas or whether it was part of the general field that overlapped the border.

MR. BROWN: The contracts are similar on both the Alberta and Saskatchewan side, with the producers.

MR. COMMISSIONER BRITNELL: And in no case are they higher than the 10¢ wellhead price?

MR. BROWN: 10¢ for the first two years.

MR. COMMISSIONER BRITNELL: Then there is an escalation clause?

MR. BROWN: Renegotiation after that. There is no fixed escalation clause.

MR. COMMISSIONER BRITNELL: With respect



to the last point in that paragraph:

"While contracts entered into by the Corporation have, in general, been for 20 years, almost all producers would contemplate renewing them over a further 10 years."

Would that contemplate renewing them on a 10¢ wellhead price with an escalator clause or for renegotiation at a higher rate?

MR. BROWN: To be renegotiated after 20 years.

MR. PATTERSON: Would you mind turning to page 85 for a moment, Table 24. In the 30-year consumption, you start out with the figures and down after you have reached the point where you say, "less Alberta supplies as secured by agreement," then you find a deficiency of 741 million MCF and then you deduct power generation. I am somewhat puzzled as to that. Why is the power generation deducted and not added?

MR. BROWN: Well, we had the power generation amount in the 2 million up at the top here.

MR. PATTERSON: And because this table represents a 45-year period, you are taking out one-third?

MR. BROWN: No, this is a 30-year period. We are just bringing it down to the minimum deficiency, if no gas was used for power whatsoever.

MR. PATTERSON: Thank you. I was not sure I followed that.

We had some statements in regard to the possible rise in cost to consumers of gas in Alberta, and while we have your Appendix 11, I wonder if you could give us the average cost of a year's heating



bill in, say, Regina or Saskatoon?

MR. BROWN: Regina, for space heating, water heating and so on, averages about \$145.

MR. PATTERSON: And that is approximately twice the Alberta cost, is that your understanding of it?

MR. BROWN: The Edmonton rate.

MR. PATTERSON: And have you, in regard to your pipeline operations, for our use and comparative purposes, costs per MCF mile?

MR. BROWN: We do not have that available right now but we could probably have it worked out for you.

MR. PATTERSON: Thank you. If you would, I would appreciate it.

I think that is all until this afternoon, Mr. Chairman. It might be a convenient time to break for a moment, unless there are further matters to be cleared up.

THE CHAIRMAN: Do you want to make your statement this morning or after Mr. Cass-Beggs? How do you wish to handle that, Mr. Brockelbank?

MR. BROCKELBANK: I think it would be best, probably, to leave it until after he speaks, because otherwise he may be saying the same thing I am trying to say, only saying it much better.

THE CHAIRMAN: You are being modest.

MR. BROWN: This is not an occasion for Mr. Cass-Beggs to make a speech. It is an opportunity for the Commission to question him.

MR. BROCKELBANK: Well, he will deal, undoubtedly, with some of these points and it would



be foolish for me to try to go into a lot of detail on them before we have them here, so I think I will be glad to postpone my few remarks.

THE CHAIRMAN: All right, sir. Then suppose we adjourn the further hearing of the Government's brief until this afternoon or possibly . . .

MR. BROCKELBANK: Whenever you call us.

THE CHAIRMAN: Well, which would suit your convenience? Would it suit your convenience to have it this afternoon or tomorrow?

MR. BROCKELBANK: Mr. Chairman, I think we had better take into consideration the other people who are making representations, too. It may not be convenient for other people to interrupt their presentations.

THE CHAIRMAN: That is right. Let me put it another way: does it make any difference to you men whether you go on this afternoon or tomorrow morning?

MR. BROWN: Not a bit, Mr. Chairman.

THE CHAIRMAN: Then I would think that we would be wiser to adjourn the further hearing of the Government's brief until tomorrow morning.

MR. BROCKELBANK: Very good.

THE CHAIRMAN: And we can have a ten-minute break and we can go on with the -- no, we do not want a ten-minute break at the moment. The C.P.A., Mr. Parkinson, representatives of the Canadian Petroleum Association are anxious to make some submission to us about regulation or something.

MR. PARKINSON: I think it is more a matter of reserves.

THE CHAIRMAN: I wonder if they are



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prepared to go on now?

MR. MacPHERSON: We are prepared to go on
now.

THE CHAIRMAN: Will it take very long?

MR. MacPHERSON: No, it will be short.

THE CHAIRMAN: Well, let us do that now,
before we break for ten minutes.



Submission of
THE CANADIAN PETROLEUM ASSOCIATION

APPEARANCES:

Mr. M A. MacPherson - representing the Association.

MR. MacPHERSON: Mr. Chairman, the Canadian Petroleum Association filed, in Calgary, a very exhaustive brief.

THE CHAIRMAN: Yes.

MR. MacPHERSON: They covered the whole situation in the Province of Saskatchewan as well as the Province of Alberta in the matter of exploration, in the matter of development, in the matter of investment, in the matter of reserves.

Now, that submission covered the situation in the Province of Saskatchewan as well as the Province of Alberta, so there is no need to file another submission now.

There is some difference in computation of reserves between the Government figures as given yesterday and the figures as given by the Canadian Petroleum Association and, in that connection, there is a statement I would like to read and then, if the Commission wish to ask any questions, we have witnesses here who can answer, and I will simply read this statement:

"Statement of the Canadian Petroleum Association with respect to Oil Reserves Estimate Figures by the D.M.R. and C.P.A. to the Borden Royal Commission on Energy."



Both the Department of Mineral Resources and the Canadian Petroleum Association are aware that differences exist in their respective estimates of reserves of crude oil in Saskatchewan and they have met and discussed these differences.

It was found that the areas designated by the C.P.A. as areas Nos. 2, 5 and 6 are the ones in which the major differences occur. The pools which lie within areas Nos. 5 and 6 are relatively new and very limited production history on them is available. Consequently, differences exist in the respective assessments of proven productive acreage, effective pay thicknesses, individual well characteristics and potential productiveness. Because the differences lie in the interpretation of available data, they are difficult to resolve. No doubt, after further development and with more field history available, subsequent reserve estimates will be more readily reconcileable.

Both the Department of Mineral Resources and the Canadian Petroleum Association are satisfied that they have made the best estimates possible from the data available to them, and while both understand the reasons for the differences, neither would feel justified in changing its estimates at the present time."

Now, our witnesses are here and if there are any questions that counsel or the Commission wish to ask of them, they would be glad to answer; otherwise, there is nothing to add to the brief as filed in Calgary.



THE CHAIRMAN: Thank you very much, Mr. MacPherson. We did speak yesterday to Mr. Williams and got much the same explanation. I think there is no real difference in the record from the explanation which he orally gave to us yesterday afternoon and this submission, and I doubt very much -- does any member of the Commission wish to ask anything? Mr. Patterson?

MR. PATTERSON: No, thank you.

THE CHAIRMAN: I do not think there are any questions. We are very grateful for you having taken the trouble to come up and give us this reconciliation, so to speak, of the differences; we appreciate it very much.

MR. MacPHERSON: If there are any questions the Commission wish to direct to the Saskatchewan section that they do not find covered in the brief as it was filed, they would be glad to answer, and witnesses are here to answer.

THE CHAIRMAN: Thank you very much.

Are there any questions which you wish to direct to the witnesses of the Saskatchewan division of the Association, Mr. Patterson?

MR. PATTERSON: Nothing so far, Mr. Chairman. but I expect if some matters should arise, there are further submissions on which we might need their assistance and I understand they will be here.

THE CHAIRMAN: My understanding, Mr. MacPherson, is that some of these gentlemen, in any event, are going to be here throughout our hearings in Regina and, as questions may arise -- we do not want to hold anybody, but that was my understanding,



that some of these gentlemen were going to be here.

MR. MacPHERSON: Well, I can assure the Commission that so far as the Saskatchewan section is concerned, if there is any information they can give or any assistance they can give to the Commission, it will be their pleasure to give it.

THE CHAIRMAN: Thank you very much, sir.
Now I think we will adjourn until a quarter past 11.00 and at that time we will go on with the Woodley Canadian Oil Company submission, if that is satisfactory.

---A short recess.



THE CHAIRMAN: We will now resume our hearing, Mr. Patterson.

Submission of

WOODLEY CANADIAN OIL COMPANY

APPEARANCES:

Marlin E. Sandlin	- President, Woodley Canadian Oil Company
James A. Smith	- Vice-president, Woodley Canadian Oil Company
E. L. Semple	- President, Great Northern Oil Purchasing Company
John S. Black	- President, South Saskatchewan Pipe Line Company
A. Powell	- Accountant, South Saskatchewan Pipe Line

MR. PATTERSON: We might proceed with the submission of Woodley Canadian Oil Company. Mr. Sandlin, the president of the company is here and he has with him a number of gentlemen associated with him and I suggest, perhaps, he introduce them to the Commission briefly and explain their association with the development of Saskatchewan.

THE CHAIRMAN: Would you do that, Mr. Sandlin, please?

MR. SANDLIN: I will first introduce Mr. John Black, president of South Saskatchewan Pipe Line Company on my right. I will discuss that company in connection with my submission. Mr. Powell is the



accountant for South Saskatchewan Pipe Line Company. Mr. Smith is vice-president of Woodley Canadian Oil Company. Mr. Semple is president of Great Northern Oil Purchasing Company and that company will also be discussed in my brief.

THE CHAIRMAN: Is it your purpose to read the brief yourself?

MR. SANDLIN: Yes, that is what I had in mind.

MR. PATTERSON: We might commence by marking that as Exhibit R-15-4.

---EXHIBIT NO. R-15-4: Submission of the Woodley Canadian Oil Company.

MR. SANDLIN: March 25, 1958

The Royal Commission on Canada's Energy Resources.
Gentlemen:

We submit herewith on behalf of Woodley Canadian Oil Company a brief on the marketing of Fosterton type crude oil produced in South-western Saskatchewan and Midale type crude oil produced in Southeastern Saskatchewan.

The purpose of this submission is to acquaint the members of the Commission with the problems encountered, the risks assumed, the obligations made, and the pricing policy determined in the marketing of these crude oils.

Respectfully yours,

Marlin E. Sandlin
President

For and on behalf of Woodley Canadian Oil Company

Mr. Chairman, before I start reading the brief, it may be well for me to give some history of



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my connection with the various companies that I will be speaking about in order that you may know my acquaintance with the problems.

I am president of Woodley Canadian Oil Company and a director of that company and have been since its organization. I am also a director of South Saskatchewan Pipe Line Company. I am a director and vice-president of Great Northern Oil Purchasing Company. I am vice-president of Woodley Petroleum Company which is the parent company in the States of Woodley Canadian Oil Company, Woodley Canadian Oil Company being a wholly owned subsidiary of the Woodley Petroleum Company. I am president and director of Minnesota Pipe Line Company. I am vice-president and director and general counsel of Great Northern Oil Company. I believe those are all of the companies that will be discussed in connection with this submission. I might also state that I am a member of the State Bar of Texas; a lawyer by profession. I was in private practice to January 1, 1944 and since that time I have been associated with Woodley Canadian Oil Company and the other companies which I will speak about today.

THE CHAIRMAN: You were drafted, in other words. The procedure we have been following is that you may expect to be stopped and questioned on any point in the brief on which counsel or any member of the Commission wish to ask a question or get further clarification. I hope that will not disturb you.

MR. SANDLIN: That is entirely satisfactory.

Introduction:

Woodley Canadian Oil Company was incorporated under the laws of the State of Delaware in November,



1952. After its incorporation, the Company was registered and licensed to do business in the Provinces of Saskatchewan and Alberta, Canada, and has since that time conducted exploration activities for oil and gas in said provinces and has carried on the business of producing crude oil in Southwestern and Southeastern Saskatchewan.

Woodley Canadian Oil Company is a wholly owned subsidiary of Woodley Petroleum Company, a Delaware corporation, with its principal office in Houston, Texas, and is the successor in interest in Canada to Western Prairie Exploration Co., Ltd.

THE CHAIRMAN: As a matter of interest can you tell us why the Woodley Canadian is incorporated under the laws of the State of Delaware? Is it a tax problem?

MR. SANDLIN: We have a tax advantage being incorporated under the laws of the State of Delaware. In the States we have an income tax provision which we refer to as the western hemisphere trade act advantage, the practical application of which means a U.S. Corporation doing business in the Western Hemisphere transacting 95% or more of its business outside of the United States is granted a 27% tax credit on net income and it is for that reason that we changed our status in Canada from an Alberta Provincial Corporation to a Delaware Corporation operating in Canada under a foreign permit in order that we would be able to take advantage of that tax situation.

MR. COMMISSIONER LADNER: But you are still subject to the Canadian tax.

MR. SANDLIN: Yes.



MR. COMMISSIONER LADNER: And there are typical deductions and so forth, I presume.

MR. SANDLIN: Yes, but we gain additional advantages in the States. Our income tax liabilities and domestication here under the laws of Canada are identical as if we were incorporated here.

Woodley Canadian Oil Company is a stockholder in South Saskatchewan Pipe Line Company and its parent company, Woodley Petroleum Company, is a stockholder in Great Northern Oil Purchasing Company, Minnesota Pipe Line Company and Great Northern Oil Company, each of which companies plays a significant role in the marketing program for Fosterton type crude oil. Woodley Canadian Oil Company is also a stockholder in Producers Pipelines Ltd. The latter company and its wholly owned subsidiary, Westspur Pipe Line Company, and Great Northern Oil Purchasing Company, Minnesota Pipe Line Company and Great Northern Oil Company play significant roles in the marketing program for Midale type crude oil.

South Saskatchewan Pipe Line Company was incorporated under the laws of the State of Delaware on November 6, 1953. Immediately after its incorporation, the Company was registered and licensed under the Companies Act of the Province of Saskatchewan and has since that time carried on the business of operating a crude oil pipe line system in Saskatchewan with its principal office located at Regina. The other stockholders of South Saskatchewan Pipe Line Company are Mobil Oil of Canada, Ltd., and Sinclair Pipe Line Company.

THE CHAIRMAN: Would you be good enough to

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tell us what the proportions are of that stock ownership?

MR. SANDLIN: Their stock is owned in the same proportion as the production is on; that is, 30% for Woodley Canadian, 20% for Sinclair Pipe Line Company and 50% for Mobil Oil of Canada Limited.

Great Northern Oil Purchasing Company was incorporated under the laws of the State of Delaware on May 9, 1955. This Company is registered and licensed to do business in the Province of Saskatchewan and Manitoba and is carrying on the business of purchasing crude oil in those provinces for re-sale in the domestic and in the world markets. The other principal stockholder of this Company is Sinclair Crude Oil Purchasing Company. The principal office of the Company is located at Regina.

Producers Pipelines Ltd., is incorporated under the laws of Saskatchewan with its principal office at Regina. This Company together with its wholly owned subsidiary, Westspur Pipe Line Company, conducts a crude oil pipe line system in Southeastern Saskatchewan. The other stockholders in this Company are also crude oil producers.

Minnesota Pipe Line Company was incorporated under the laws of the State of Delaware on December 2, 1953. Immediately after its incorporation, the Company was qualified to do business in the State of Minnesota and has since that time carried on the business of operating a crude oil pipe line system in that State. The principal stockholders of this Company are Woodley Petroleum Company and Sinclair Pipe Line Company. The principal office of this



Company is located at Saint Paul, Minnesota.

Great Northern Oil Company was incorporated under the laws of the State of Delaware on February 2, 1951. After its incorporation, the Company was qualified to do business in the State of Minnesota, among other states in the United States, and is registered and licensed under the Companies Act of the Province of Saskatchewan. This Company is carrying on the business of operating a petroleum refinery at Pine Bend, Minnesota, where its principal office is located. The principal stockholders are Woodley Petroleum Company and Sinclair Refining Company.

THE CHAIRMAN: Can you tell me why Great Northern Oil Company is registered to do business in Saskatchewan.

MR. SANDLIN: When we first started our program in Canada with respect to the marketing of Fosterton type crude, it was first contemplated Great Northern Oil Company would maintain an office in Regina and would buy the oil direct to service the contracts which we had executed on behalf of that company with producers. But later we decided to create a crude oil purchasing company which is Great Northern Oil Purchasing Company to do the purchasing for the refining company and to buy and resell crude on other markets. Since we have already qualified Great Northern Oil Company in Canada and since so much oil was being purchased for the account of Great Northern Oil Company we felt we should continue our qualification registration here in order to show we are domesticated.

THE CHAIRMAN: In other words, in a sense it is a formality; the operations are at Pine Bend.



MR. SANDLIN: Yes, that is correct; since that time.

History:

Mobil Oil of Canada, Ltd., Woodley Canadian Oil Company and Sinclair Canada Oil Company (as successor in interest to Southern Production Company, Inc.) are pioneer producers of Fosterton type crude oil in Southwestern Saskatchewan. These companies have carried on joint operations in Saskatchewan for a number of years and are the discoverers of the Fosterton Field, Cantuar Field, Success Field, South Success Field, North Premier Field, Midway Field, Southeast Midway Field, Verlo Field and Battrum Field.

Soon after the early discoveries were made it became apparent that markets did not exist for the quality and quantities of Fosterton type crude that these fields were capable of producing for the principal reason that the petroleum refineries in Canada and in the Great Lakes Area of the United States were not designed to process the high-sulphur crude oil of medium gravity. These companies realized that they must provide their own market. To provide this market, the companies again pioneered in the building of transportation facilities to transport this Fosterton type crude oil to market. These facilities comprise the present South Saskatchewan Pipe Line System, consisting of crude oil gathering systems in the Fosterton, Cantuar, Success, South Success, and Battrum Fields and the crude oil gathering systems in the Dollard, Instow, Bone Creek, Gull Lake and North Premier Fields connecting with the Dollard Extension line from the



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Dollard Field to the Cantuar Station; the 16" main trunk line from the Cantuar Station to Regina, a distance of approximately 156 miles, connecting with the Interprovincial Pipe Line System and to domestic refineries at Moose Jaw and Regina; the Cantuar pump station of modern design with storage capacity of 160,000 barrels; modern office building and warehouse located at Swift Current; and all other equipment and facilities necessary for the maintenance and operation of an efficient crude oil pipe line system.

Further, two of these stockholder companies, Woodley Canadian Oil Company (through its parent company Woodley Petroleum Company) and Southern Production Company, Inc. (predecessor in interest to Sinclair Pipe Line Company), together with minority stockholders, constructed the crude oil pipe line facilities of Minnesota Pipe Line Company in the State of Minnesota to transport such crude oil from a take-off point on the Lakehead Pipe Line System at Clearbrook, Minnesota, to Pine Bend, Minnesota. The Minnesota Pipe Line System comprises a 16" main trunk line from Clearbrook to Pine Bend, a distance of approximately 256 miles, with pump stations of modern design located at Clearbrook and at Little Falls, and all other equipment and facilities necessary for the maintenance and operation of an efficient crude oil pipe line system.

Further, the same stockholder companies, Woodley Canadian Oil Company (through its parent company, Woodley Petroleum Company) and Southern Production Company, Inc. (predecessor in interest to



Sinclair Refining Company), together with minority stockholders, constructed a petroleum refinery of modern design with a maximum capacity of approximately 33,000 barrels per calendar day at Pine Bend, Minnesota. This refinery was designed and constructed for the primary purpose of refining the quality and gravity of crude oil produced from the above named fields.

Then, as Midale high-sulphur crude came into production in substantial quantities in South-eastern Saskatchewan, along with crude oils of higher gravities and lower sulphur content in that region, Woodley Canadian Oil Company joined with Southern Production Company, Inc. (predecessor in interest to Sinclair Pipe Line Company), and other crude oil producers to construct the pipe line system in South-eastern Saskatchewan from Midale Station to Cromer Station in Manitoba connecting with the Interprovincial Pipe Line System for the purpose of providing a market outlet for crude oil in Southeastern Saskatchewan. These pipe line facilities, including the gathering system, pump stations, and all other equipment, presently comprise the pipe line system of Producers Pipelines Ltd., and its wholly owned subsidiary, Westspur Pipe Line Company.

Since the petroleum refinery of Great Northern Oil Company of Pine Bend was designed to process high-sulphur crude oil of medium gravity, this refinery became a ready market for quantities of Midale type crude oil on completion of the pipe line system in Southeastern Saskatchewan.



Financial Commitments:

The petroleum refinery of Great Northern Oil Company at Pine Bend has been constructed at a cost of approximately \$27,000,000, without consideration being given to working capital of at least \$2,500,000. The financing of this refinery has required equity capital in the amount of \$4,663,659, plus \$3,515,000 derived from the sale of subordinated debentures in the principal amount of \$3,700,000, and bank loans in the aggregate amount of \$19,000,000.

The pipe line system of Minnesota Pipe Line Company was constructed at an original cost of approximately \$12,800,000. The financing of these facilities involved \$1,505,000 of equity capital and loans from banks and an insurance company aggregating the sum of \$12,400,000.

The pipe line facilities of South Saskatchewan Pipe Line Company have been built at a cost of approximately \$14,000,000. The stockholders supplied about \$2,720,000 and approximately \$9,880,000 was obtained through bank loans. The principal of the outstanding debt due the banks is approximately \$7,855,000.

Contractual Obligations:

As an inducement to and as collateral for loans for the financing of the pipe line facilities and refining facilities for the marketing of Fosterton type crude oil, it was necessary for long term contractual commitments to be made.

Mobil Oil of Canada, Ltd., Woodley Canadian Oil Company, and Sinclair Canada Oil Company are committed to sell and Great Northern Oil Company is



committed to buy up to 20,000 barrels per calendar day of Fosterton type crude oil for a ten year period commencing June 1, 1955.

Great Northern Oil Purchasing Company is obligated by contract with Tidewater Oil Company, The Ohio Oil Company, Columbian Carbon Company and The Atlantic Refining Company to purchase for Great Northern Oil Company and for its own account up to 10,000 barrels per calendar day of Fosterton type crude oil from the Dollard Field for a ten year period beginning October 1, 1956. At the same time, Great Northern Oil Purchasing Company entered into a through-put agreement with South Saskatchewan Pipe Line Company to tender or cause to be tendered to South Saskatchewan at the wellhead for transport all of the crude oil which it shall purchase and receive from such companies in the Dollard Field.

Great Northern Oil Company entered into a through-put agreement with South Saskatchewan Pipe Line Company wherein it agreed to tender or to cause to be tendered for gathering and transport all of the crude oil purchased by or for Great Northern in the area served by the pipe line in quantities per calendar month equivalent to the average rate of not less than 15,000 barrels per calendar day for the period June 1, 1955, to December 31, 1955; at the average rate of not less than 20,000 barrels per calendar day for the period January 1, 1956, to December 31, 1965; and, all of the crude oil purchased for the period January 1, 1966, to December 31, 1975.

Great Northern Oil Company also entered into



a through-put agreement with Minnesota Pipe Line Company for a period of twenty years whereby it agreed to tender for shipment a minimum through-put of Fosterton type or other types of crude oil of 15,000 barrels per calendar day for the period July 1, 1955, to December 31, 1955, and 20,000 barrels per calendar day for the period January 1, 1956, to December 31, 1975. Further, Great Northern agreed that for the life of the through-put agreement and the stockholders of Minnesota Pipe Line Company agreed that so long as any indebtedness is due the banks and the insurance company to guarantee Minnesota Pipe Line Company a gross revenue equivalent to 23.4 cents per barrel (exclusive of line loss) times 23,000 barrels per calendar day, the obligation being divided 23.4 cents times 20,000 barrels per calendar day for Great Northern and 23.4 cents times 3,000 barrels per calendar day for the Minnesota stockholders.

Great Northern Oil Company also committed itself by long term contract to sell and deliver to Socony Mobil Oil Company, Inc., in the United States substantial quantities of refined products from its refinery at Pine Bend. The prices which Socony will pay Great Northern for these products are tied to the cost of Fosterton type crude oil laid down by pipe line at Pine Bend.

Pricing Policy:

It is fundamental that for crude oil to be sold in the world market its price must be competitive with crude oils of the same or similar quality and gravity sold in such market.



The market for refined products in the Twin Cities Area of Minnesota is competitive with the market for refined products in the Chicago Area and in the Mid-Continent Area of the United States. It was determined early, therefore, that the laid down cost of Fosterton type crude oil at Great Northern's refinery at Pine Bend must be competitive with crude oil of similar quality and gravity laid down by pipe line in the Chicago Area until such time as crude oil of similar quality and gravity is laid down in the Twin Cities Area by pipe line in substantial quantity to other purchasers to establish another market value. This pricing policy was established and has been consistently followed for Fosterton type crude oil laid down at Pine Bend. The wellhead price paid by Great Northern Oil Purchasing Company, as agent for Great Northern Oil Company and on its own account, has therefore been the laid down cost by pipe line in the Chicago Area of reference crudes of similar quality and gravity less the cost of gathering and less all costs, including United States Import Duty, of transporting such crude oil to the refinery at Pine Bend.

The same pricing policy has been followed with respect to all Midale type crude oil purchased by or for Great Northern Oil Company.



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Markets: The basic markets for Fosterton type crude oil in the future will continue to be those markets created by long term contracts with Great Northern Oil Company and Great Northern Oil Purchasing Company, after taking care of the requirements in limited quantities of the domestic refineries at Moose Jaw and Regina. It is recognized, of course, that with the availability of Fosterton type crude oil in greater volume, the demand for additional quantities of Fosterton type crude at points in Canada and in the United States along the Interprovincial Pipe Line and the Minnesota Pipe Line Systems may increase as refining facilities are designed to handle this quality and gravity of crude oil.

While the basic market initially for Midale type crude oil was the refinery of Great Northern Oil Company at Pine Bend, the refineries in the Duluth area of Minnesota and Wisconsin have also become a substantial market outlet for this high-sulphur crude oil of medium gravity. It is contemplated that as additional refining facilities are designed to process crude oil of this quality and gravity, the demand in the market outlets along the Interprovincial and Lakehead Pipe Line System and the Minnesota Pipe Line System will increase substantially.

The existing markets for Fosterton type crude oil at Pine Bend, Minnesota, currently at the rate of approximately 23,000 barrels per calendar day, after making allowance of 5,000 barrels per day for the domestic refineries at Moose Jaw and Regina and 2,000 barrels per day for shipment to Clarkson, and the existing markets for Midale type crude oil



at Pine Bend, currently at the rate of approximately 9,000 barrels per calendar day, and at points along the pipeline system of Lakehead Pipe Line Company Inc., in the United States at the rate of approximately 8,600 barrels per day, of course, depend for their existence and continued growth upon a favorable export policy for crude oil from Canada to the United States and a favorable import policy for crude oil from Canada into the United States.

Conclusion: Woodley Canadian Oil Company and its associates have entered upon a long range program of exploration for oil and gas, production of oil and gas, transportation of crude oil, marketing of crude oil in the world market, refining Canadian crude oil and selling products manufactured therefrom in the world market. This long range program has been undertaken at a substantial cost and great risk, based upon faith in the provincial and dominion governments of Canada and of the government of the United States and upon our confidence in those governments that we would receive fair and equitable treatment for the risks assumed in the creation of markets for Canadian crude oil far removed from the points of discovery and production.

The development of the oil and gas resources of Western Canada is in its infancy. We cannot urge too strongly the maintenance of a healthy climate for private capital to continue to take the initiative and assume the great financial risks involved in the development of these resources, not only for the welfare and progress of all of Canada but also in the interest of western hemispheric



defense and solidarity.

This healthy climate embraces the private ownership of the oil and gas reserves and of the transportation facilities therefor, reasonable regulatory practices, a liberal export policy, a tax policy designed to encourage and to provide an incentive for the development of the oil and gas resources, broadening of the credit policies of lending institutions to enable the financing in Canada of the costly undertakings required for the development of these resources, the stabilization of the currencies of the United States and of Canada and the strengthening by mutual effort of the excellent trade relations between the United States and Canada.

THE CHAIRMAN: Thank you very much, Mr. Sandlin.

MR. SANDLIN: Thank you, Mr. Chairman.

I have some exhibits which I would like to introduce. Would there be some questions at this time, or should I proceed?

THE CHAIRMAN: Yes, please.

MR. SANDLIN: In connection with our import policy in the United States, I have been very active in working with our Government, both with Congress and the Administration, since 1955 on our petroleum import policy. I have some exhibits that I thought might be pertinent to an understanding on the part of this Commission of the efforts that we are making in the States to, shall we say, prevent discrimination against Canada and Canadian crude oil imports.

MR. PATTERSON: Mr. Chairman, I would



suggest that perhaps Mr. Sandlin's exhibits might be rather better understood if he were asked to tell us about his experiences and so on, and then sort of fit them into his discourse and enter them as they are referred to by him.

THE CHAIRMAN: I think that is the way to do it.

MR. SANDLIN: Beginning back in 1955 we were threatened, and the Congress, with what was then known as the Nelson Amendment, which we were successful in defeating. The effect of that amendment, which was offered as an amendment to the Reciprocal Trade Extension in 1955 would have been to limit the importation of crude petroleum, that is crude oil itself and also products, to 10 per cent of the 1954 domestic demand.

We were able to defeat that amendment and a substitute was offered and was adopted by the Senate and by Congress, approved by the President, which delegated to the President the authority to make examinations as to whether any product is being imported into the United States in such quantities as to threaten the National Security.

Since that time, of course, there has been considerable pressure on the part of independent oil producers down in Texas and Louisiana and elsewhere for the President to take action under that authority to restrict crude oil and petroleum imports by mandatory action.

As you know, of course, the President has never acted under that delegation of power, although last year the Director of the Office of Defense



Mobilization made a fact-finding that at that time crude oil itself, not the product but crude oil, was then being imported into the United States in such quantities as to threaten the National Security and recommended to the President that action be taken.

The action that was taken, of course, was the Voluntary Oil Import Program that was adopted and approved by the President. That is the so-called Voluntary Oil Import Program under which quotas were assigned to all then importing companies and an administration program was appointed under Captain Carson, Jr. That program, of course, while it did not recognize an exemption for Canadian oil as such, it was written and so planned that the quotas assigned to all companies importing crude oil from Canada into the United States were set high enough to include all of their nominations for as far ahead as they could see.

I was told authoritatively by the people designated by the President who drafted this program that the reason for stating it and expressing it in the manner that they did, rather than outright exemption which we had insisted be set forth as they had done under ordinary general policy, was the fact they could accomplish the same result in a manner less offensive to the Middle East and Venezuela.

At that time I know it was not contemplated there would be any restriction, either voluntary or otherwise, on Canadian crude oil imports.

In the latter part of 1957, of course, with the recession coming on us in the United States, we were over-produced domestically in crude oil and our inventories were high and the pressure again was



resumed for the President to take action under his delegated authority to establish mandatory controls on crude oil imports.

At that time we and Woodley Petroleum Company had realized unless some action were taken by the President to restrict crude oil imports from Venezuela and the Middle East, we were faced with the possible collapse of the domestic oil economy. That was something we would regret to see, of course. We then became active with the President's Cabinet Committee and recommended that they in turn recommend to the President that he sign an executive order establishing mandatory controls on crude oil imports into the United States, in order to head off a legislation that might set a pattern we might regret and which would be harmful to the economy in years to come, and might be prejudicial to Canadian crude oil import and set a pattern we could not do anything about.

We did make that strong recommendation in our program. Of course, in our plan of action we had recommended and we had insisted, and we always have done, that the Canadian requirements be taken care of first. We insisted all nominations for Canadian oil be allowed to be fulfilled and all Canadian crude oil imports flow into the United States freely, and the remainder of the level of import be determined by the President and could be completed by crude oil imports from Venezuela and the Middle East as the President may determine.

At one time it appeared as though they were going to take mandatory action. I spent almost six weeks in Washington on this matter working with



the members of the Cabinet Committee and representatives of the Committee and Mr. Herbert Hoover, Jr., acting as consultant to the State Department on this particular policy question and consultant to the Cabinet Committee. At the last they did decide, even after a special meeting was held down in Venezuela with the Canadian Ambassador present and General Thompson from Texas and the representative of our State Department and Captain Carson, in an effort to arrive at some voluntary agreement under which Canadian crude oil imports could flow freely into the United States, in view of the fact Canada has already started the practice, not only the conservation reservoir practice, but the import demand, they decided finally they would not recommend mandatory action but recommend strengthening the voluntary plan by adjusting the quotas that had been assigned to all of the companies previously downward so as to allow room for new importers primarily from Venezuela.

Of course, we were not quite in accord with this action. The President went further in an effort to make the program work when he directed the Government Agencies not to purchase material, products, supplies, or merchandise from any oil company not complying with the Voluntary Oil Import Program. Since the main offenders under the Voluntary Program were all major suppliers of products and materials to the Government, they felt that would be an effective means of making them comply with the program.

As to whether that program is going to succeed remains to be seen. The most objectionable feature of the whole program, as far as we are



concerned, and as we are now on record with the Cabinet Committee, and also with the Administrator of this Voluntary Program, is the fact Canadian quotas were cut. That is inconsistent and contrary to the policy they established last year on July 29th, 1957, with respect to Canadian crude oil imports.

We in Great Northern Oil Company, while our quota has been reduced, we have sufficient flexibility on the quotas that had been established to enable us to operate at full capacity until September 1st. In the meantime, we expect to ask for a hearing by the Administrator of our case as a hardship case, with a view of getting our previous quota re-established at 33,000 barrels a day on the present program.

There is considerable pressure before the Congress in view of the fact most of the independent oil producers in Texas and elsewhere do not feel the Revised Voluntary Program is adequate for legislation in the way of amendment to the Reciprocal Trade Program, the effect of which would be to establish mandatory controls on crude oil imports, and also petroleum products at some level which they would try to get adopted.

We are doing all we can to avoid that, of course. In the first place, we consider it is not good Government policy for legislation to fix specific quotas or tariffs. If it is done, it should be done as an administrative act, not a legislative act. We hope we will be successful in defeating that as far as our program is concerned. On the acquisition and purchase of Canadian oil we do not contemplate reducing our runs at any time within the fore-



seeable future. If we are forced and compelled to ignore the Voluntary Program in order to maintain our runs at our current level, we will have no choice except to do that, because of the financial commitments we have made, our contractual obligations. We would have no choice but to ignore it. On the other hand, we will make every effort to get the Administrator and the Cabinet Committee to recognize our peculiar position with respect to Canadian crude oil.

THE CHAIRMAN: Is your position different from the other importers?

MR. SANDLIN: Let me say this: it is probably from most importers for this reason. Let me break that down into two categories. It is greatly different from importers of crude oil on the Eastern Coast and also on the Gulf Coast. Most of those importers have alternate sources of crude which they can get very quickly and, I would say, at a very favourable price. We do not have an alternate source for our Great Northern refinery or the Minnesota Pipe Line.

THE CHAIRMAN: When you refer to an alternate source of supply, you are referring to a domestic supply?

MR. SANDLIN: Yes. If their quotas are reduced in Venezuela or the Middle East they can buy domestic crude at a price which will enable them to maintain the refinery runs. I would say they would make almost as much money as far as refinery operations are concerned. To that extent the Great Northern Oil Company situation is greatly different from all of the major importers and all importers,



shall we say, except Canadian importers.

I would say probably with respect to most Canadian importers, our situation is different because of the fact the other refineries that are currently processing Saskatchewan and Alberta crude and Ontario crude in Minnesota and Duluth area and along the outlets of the Lakehead Pipe Line System prior to the time they started to process this crude, were able to obtain supplies from other sources. That is by tank car from the Western United States and by barge in the summer season and by pipeline into Michigan. They do have other sources of crude and they are not tied to a pipeline that is tied exclusively to Canadian crude oil as we are. They do not have long-term contractual commitments that we have to buy. They don't have long-term contracts or sales contracts that we have with Socony, where the price at which we sell the product is determined by the laid down cost of Foster-ton type crude.

There are a number of distinguishing circumstances where we feel Great Northern would be entitled to treatment as a hardship case, and we feel that we will be granted that relief. We are hopeful, of course, in the meantime nothing happens in Congress to prejudice our case.

As a matter of background, I thought it would be of interest to the Commission, in view of the fact there has been so much pressure stemming from Texas independent oil producers, to read into the record a portion of two resolutions passed by the House of Representatives in Texas with respect to Canadian crude oil imports. This first resolution



is identified as H.S.R. No.379. It was adopted on April 17, 1957. It reads as follows:

"WHEREAS, The Railroad Commission of Texas has been compelled to reduce the April allowable for Texas crude production by over 224,000 barrels per day from the March figure, thus reducing revenues available to this State by more than Twenty Million Dollars during the coming bien-nium; and

"WHEREAS, The cut in Texas allowance pro-duction reflects the imminent opening of the Suez Canal which will free an uncontrolled flood of foreign oil into this country; and

"WHEREAS, The United States Bureau of Mines has stated it must withhold its determination of domestic market demand until the flow of Middle East Oil through the Suez Canal and Middle East pipelines may be gauged; and

"WHEREAS, The uncontrolled flow of foreign oil into this country in competition with domes-tic production restricted to market demand, results in domestic production taking what is left of the domestic market after imports; and

"WHEREAS, The international companies producing such foreign oil are constantly increasing the amount of imports into the United States, and such imports are now far above the maximum set by the President's Cabinet Fuels Policy Committee as the import amount safe for our Nation's security; and

"WHEREAS, The international oil



companies importing oil into the United States are receiving substantial subsidies from the United States including (1) direct Federal cash payments to the rulers of these Middle Eastern nations, (2) tanker subsidies, including four hundred and seventy-five million dollars in tax write offs on fifty-two tankers, and (3) diplomatic and military support to protect the fields owned by these importing companies; and

"WHEREAS, Our Federal tax statutes have been used by these international importing companies to obtain United States tax credits for amounts paid by them to foreign rulers, thus obtaining assistance in foreign development at the expense of domestic production; and

"WHEREAS, Development of new domestic oil reserves has lagged due to the tax credits and subsidies granted these companies for foreign development; and

"WHEREAS, The international importing companies guarantee certain amounts of oil production to rulers of Middle Eastern countries, while restricting domestic production to make this possible; and

"WHEREAS, The operation of Texas pipelines by affiliates of international companies provides a devious but effective means of choking crude oil in the interior of the State, through failure to make needed pipeline extensions and enlargements; and

"WHEREAS, Importing company members of the Middle East Emergency Committee, given broad



powers and anti-trust immunity by the Federal Government and charged with the responsibility of increasing the oil lift to Europe, failed to divert their United States imports to Europe, reduce their refinery runs to free crude oil for export, or change their refinery yields to produce needed fuel oils; and

"WHEREAS, These international importing companies are either franchised to do business in Texas or have operating affiliates in this State, yet their action in importing excessive amounts of foreign crude suspends the operation of Texas conservation laws, discriminates against domestic producers, and penalizes the revenues and thus the services of this Sovereign State; now, therefore, be it

"RESOLVED, However, that all petroleum imports from Canada shall be exempt in determining the ratio of imports of crude oil and residual fuel oil to domestic production of crude oil. Petroleum imports from Canada shall be excluded. All for the following reasons: (A) From the standpoint of national security, the government of the United States should treat crude oil reserves in Canada as domestic reserves for the reasons that Canada is our friendly land neighbor to the north and such crude oil reserves should be available to the United States by pipeline in the event of enemy attack; (B) Canadian crude oil reserves and our domestic crude oil reserves are a part of the common defense program between the United States and



Canada as is evidenced by "a statement of principles for economic cooperation" entered into by Canada and our government in 1950;

(C) Canadian crude oil is the only economical source of crude oil for many domestic refining facilities and the underground pipeline facilities tied to them which are important strategic facilities from the standpoint of national security on the northern border of the United States, useful for air defense in the event of enemy attack on this Country coming over the Poles and the investments of the stockholders in such refining and pipeline facilities would be placed in jeopardy or wiped out and private contracts in connection therewith would be violated in the event the flow of Canadian crude oil into the United States is restricted or interrupted; (D) United States domestic investments geared strictly to transportation, refining and marketing of Canadian oil under long-term contracts consistent with existing foreign trade policies of the United States should not be impaired or wiped out or otherwise discriminated against in favor of domestic investments geared to domestic crude oil; (E) Canada is a net importer of petroleum products from the United States and, (F) Trade relations and diplomatic relations with our excellent land neighbor to the north should not be further strained; and, be it further

"RESOLVED by the House of Representatives of the State of Texas, That the President of



the United States be urged to limit imports of foreign oil to the percentage set by his Cabinet Fuels Policy Committee as the maximum possible without endangering the security of the United States; and, be it further

"RESOLVED, That the Clerk of the House is directed to transmit a copy of this Resolution to the President of the United States and to each Member of Congress from Texas."

The preamble of the resolution, of course, is designed, and also the resolution itself was designed to call upon the Federal Government to take action to restrict crude oil imports and also petroleum products imports. Before the main resolution we were able to have that resolution amended as follows:

"RESOLVED, However, that all petroleum imports from Canada shall be exempt in determining the ratio of imports of crude oil and residual fuel oil to domestic production of crude oil. Petroleum imports from Canada shall be excluded. All for the following reasons: (A) From the standpoint of national security, the government of the United States should treat crude oil reserves in Canada as domestic reserves for the reasons that Canada is our friendly land neighbor to the north and such crude oil reserves should be available to the United States by pipeline in the event of enemy attack; (B) Canadian crude oil reserves and our domestic crude oil reserves are a part of the common defense program between the United States and Canada as is evidenced by "a state-



ment of principles for economic cooperation" entered into by Canada and our government in 1950; (C) Canadian crude oil is the only economical source of crude oil for many domestic refining facilities and the underground pipeline facilities tied to them which are important strategic facilities from the standpoint of national security on the northern border of the United States, useful for air defense in the event of enemy attack on this Country coming over the Poles and the investments of the stockholders in such refining and pipeline facilities would be placed in jeopardy or wiped out and private contracts in connection therewith would be violated in the event the flow of Canadian crude oil into the United States is restricted or interrupted; (D) United States domestic investments geared strictly to transportation, refining and marketing of Canadian oil under long-term contracts consistent with existing foreign trade policies of the United States should not be impaired or wiped out or otherwise discriminated against in favor of domestic investments geared to domestic crude oil; (E) Canada is a net importer of petroleum products from the United States and, (F) Trade relations and diplomatic relations with our excellent land neighbor to the north should not be further strained; and, be it further

"RESOLVED by the House of Representatives of the State of Texas, That the President of the United States be urged to limit imports of



foreign oil to the percentage set by his Cabinet Fuels Policy Committee as the maximum possible without endangering the security of the United States; and, be it further

"RESOLVED, That the Clerk of the House is directed to transmit a copy of this Resolution to the President of the United States and to each Member of Congress from Texas."

That same amendment was attached to another resolution, which was H.S.R. No. 25 adopted by the House of Representatives for the State of Texas on November 11th, 1957. It reads as follows:

"WHEREAS, Conservation of oil resources is vital to the welfare of this State and to national defense and that existing practices of selective purchasing of oil lead to discrimination, destruction of property and waste; and

"WHEREAS, The fact that the importation of foreign crude oil into Texas has reduced the reasonable market demand in Texas to the extent that the production of domestic wells has been necessarily reduced from their more efficient rate; and

"WHEREAS, Many stripper wells have been prematurely abandoned therefrom and that a serious waste of the natural crude oil of this State exists by reason thereof; and

"WHEREAS, There are hundreds of wells throughout the State of Texas without pipeline connections, representing millions of dollars in invested capital, with poor financial return and in some counties it is not now



possible to sell enough oil to pay operating costs; and

"WHEREAS, Small farmers, landowners and royalty owners in the State of Texas are being deprived of much needed bonus and rental moneys; and

"WHEREAS, Unemployment is increasing at an alarming rate throughout the oil industry and state revenues are decreasing at such a rapid rate that new and burdensome taxes will probably be inflicted upon the people of Texas; and

"WHEREAS, Millions of barrels of foreign oil, costing approximately One Dollar (\$1) per barrel, are being merchandised throughout the United States on a Three Dollar (\$3) per barrel market, thereby increasing the profits of the major oil importing companies to the financial detriment of the great State of Texas and its people; and

"WHEREAS, Due to this unwarranted influx of foreign oil many of our Texas fields are operating on a twelve (12) day per month basis; and

"WHEREAS, Today the independent producer stands at the cross-roads of financial bankruptcy and unless the noose placed around his neck by the world oil cartel is loosened it will lead to the gradual decline and ruination of the greatest single industry in this great State of Texas; now, therefore, be it

"RESOLVED by the House of Representatives of the State of Texas, That Senate Majority



Leader Lyndon Johnson be requested to have introduced and sponsor legislation to impose a substantial protective tariff on foreign oil importations that are creating grave financial evils; and, be it further

"RESOLVED, However, that all petroleum imports from Canada shall be exempt in determining the ratio of imports of crude oil and residual fuel oil to domestic production of crude oil. Petroleum imports from Canada shall be excluded. All for the following reasons:

(A) From the standpoing of national security, the government of the United States should treat crude oil reserves in Canada as domestic reserves for the reasons that Canada is our friendly land neighbor to the north and such crude oil reserves should be available to the United States by pipeline in the event of enemy attack; (B) Canadian crude oil reserves and our domestic crude oil reserves are a part of the common defense program between the United States and Canada as is evidence by "a statement of principles for economic co-operation" entered into by Canada and our government in 1950; (C) Canadian crude oil is the only economical source of crude oil for many domestic refining facilities and the underground pipeline facilities tied to them which are important strategic facilities from the standpoint of national security on the northern border of the United States, useful for air defense in the event of enemy attack



on this Country coming over the Poles and the investments of the stockholders in such refining and pipeline facilities would be placed in jeopardy or wiped out and private contracts in connection therewith would be violated in the event the flow of Canadian crude oil into the United States is restricted or interrupted;

(D) United States domestic investments geared strictly to transportation, refining and marketing of Canadian oil under long-term contracts consistent with existing foreign trade policies of the United States should not be impaired or wiped out or otherwise discriminated against in favor of domestic investments geared to domestic crude oil; (E) Canada is a net importer of petroleum products from the United States and, (F) Trade relations and diplomatic relations with our excellent land neighbor to the north should not be further strained; and, be it further

"RESOLVED, That the Clerk of the House be directed to transmit a copy of this Resolution to the two Senators from Texas and to each of our Representatives in Congress and that we hereby urgently request their full cooperation and support in this proposed legislation so important to Texas.

Wilson of Young.

Lee
Stroman
Parish
Walling
Huffor
Day
Byrd

Talasek
Zbranek
Glass
Holstein
Moore of Harris
Sadler
Shackelford

McIlhany
Yezak
Tunnell
McCoppin
Bullock
Thurmond
Wilson of Potter



Hooks	Bass	Blanchard
Mays	Huebner	Johnson
Parsons	Korloth	Jackson
Blaine	Jones	Holman
Shannon of	Richardson	Kothmann
Erath	Burkett	Dugas
Jamison	Stewart	Coley
Armor	Huffman	Ferrell
Turman	Goetz	Kennard
Schram	Shaw	Cowen
Hensley	Bishop	Fenoglio
Terrell	Latimer	Roberts
Crosthwait	Myatt	Schwartz of
Kelly	Heatly	Washington
Schwartz of	Murray	Hutchins
Galveston	Cloud	Dungan
Hollowell	Wohlford	Bryan
Springer	Cox	Mullen
Green	Bell	Ballman
Osborn		

Speaker of the House

I hereby certify that
H.S.R. No. 25 was adopted by
the House, as amended, on
November 11, 1957, by a viva-
voce vote.

"Dorothy Hallman"
Chief Clerk of the House".

---EXHIBIT NO. R-15-5: Resolution H.S.R. No. 379,
April 17, 1957.

---EXHIBIT NO. R-15-6: Resolution H.S.R. No. 25,
November 11, 1957.

The amendment was identical to the reso-
lution.

It is not completely a one-way street in
Texas that everyone is objecting to Canadian oil
imports. As a matter of fact, based upon my contact
with the independent oil producers in the States and
even though they have exerted tremendous pressure
upon the Administration all the way along to restrict



crude oil imports, I can say that I have discussed the Canadian crude oil import situation with the officials of the various trade groups applying the pressure, and all of them have told me repeatedly they would have no objection whatsoever to complete exemption for Canadian crude oil, either in legislation or in action taken by the President. They said they are not in a position to urge that. It would weaken the efforts they are trying to accomplish. They would not oppose it. So there is that atmosphere that we hope during the final analysis to help us to obtain a fair import policy as far as Canadian oil imports are concerned.

THE CHAIRMAN: Would it be a fair statement to say a fair portion of those independents in Texas are also interested in oil in Canada?

MR. SANDLIN: Yes.



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MR. SANDLIN: Yes, that is true in some cases but I would say that most of these people who are exerting the greatest pressure are not at the present time interested in production in Canada.

Of course, many of them have told me they would like to have something up here and if I could find a place for them to go they would be very happy to be here, and I am sure their attitude then would be different; but that is so in some cases.

Also, on behalf of Great Northern Oil Company --

THE CHAIRMAN: Just a second, please. Would you have any objection to those two resolutions going into the transcript?

MR. SANDLIN: No. I would be delighted. I don't have but just the two copies but I would be delighted to tender them.

THE CHAIRMAN I think if we could have the whole thing put in as an Exhibit and then the Reporter could copy the whole thing into the transcript, you see, that would be better.

MR. SANDLIN: Fine.

THE CHAIRMAN: Now we will have to mark them, I think, or we will get into trouble, Mr. Patterson.

MR. PATTERSON: Yes. If I could have them to describe them for the record for a moment.

THE CHAIRMAN: And I am including the preamble as well as what you read.

MR. SANDLIN: I would be delighted. I have extra copies in my office in Houston.

THE CHAIRMAN: It will go into the transcript, if we do it that way.



MR. PATTERSON: Might the resolution entitled H.S.R. No. 379 be marked as Exhibit R-15-5 and the one entitled H.S.R. No. 25 be marked as Exhibit R-15-6.

---EXHIBIT NO. R-15-5: Resolution H.S.R. No. 379
of the House of Representatives of the State of Texas.

---EXHIBIT NO. R-15-6: Resolution H.S.R. No. 25
of the House of Representatives of the State of Texas.

MR. SANDLIN: Also I have before me three statements which we filed on behalf of Great Northern Oil Company, two with the Office of Defence Mobilization and one with the President and a fourth which incorporates the program which we recommended recently to the President and Cabinet Committee and which is still before them for consideration in the event that they determine that the current voluntary program will not work, and they have told me in that event they will consider this plan very seriously as a part of the program.

So it occurred to me, in presenting our total picture here to the Commission, that reading these statements will accomplish two purposes: it would show the Commission, in some more detail than I have in the submission, our program from the well-head to the output side of the refinery, and also how we are tied into U.S. Government policy with respect to the program, so, at the expense of being a little lengthy, I can start this; but if for any reason the Commission do not want to hear all of it, I would be glad --



THE CHAIRMAN: I think the Commission will be very glad to hear it. However, we are faced with a question of time. It is 12.15 and I think probably we should adjourn for lunch and reassemble at 2 o'clock.

MR. SANDLIN: That suits me fine.

THE CHAIRMAN: I would imagine, from what I can see, that that is 3 or 4 pages.

MR. SANDLIN: Actually, they are rather lengthy. I have one that is 6 pages and another one that is 9. I did not have in mind reading one of them, although I would tender it, because there is so much duplication in one of them; so I would suggest reading two and then the letter of transmittal in connection with the program that we filed and let that be a part of the record, because I would think it would be rather technical to go into this plan as far as reading it here; but, for your record, I could say some of the provisions incorporated there were drafted after numerous discussions with Members of the Cabinet Committee, so at least you would have some idea of the direction in which they are thinking, if this policy is changed.

THE CHAIRMAN: Then suppose we do that as soon as we reassemble after lunch.

MR. SANDLIN: Fine.

THE CHAIRMAN: In the meantime, we will adjourn until 2 o'clock.

---Whereupon the hearing adjourned at 12.15 p.m.
until 2 p.m.



---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Sandlin, I think you were going to read that memorandum or letter.

MR. SANDLIN: Yes, I have two or three I would like to tender.

THE CHAIRMAN: Very well.

MR. SANDLIN: Mr. Chairman, if I may, before I start reading I would like to make one minor correction in the submission this morning which was called to my attention by the president of the Great Northern Oil Company. I referred to the maximum capacity as 33,000 barrels per calendar day; I should have stated 33,000 per stream day. It is a technicality.

THE CHAIRMAN: What do you mean by that; does that omit Sundays?

MR. SANDLIN: The stream days are the number of days that the refinery actually runs. In other words in the course of a year the refinery would have a turn-around to make repairs and adjustments; then you will have stoppages, maybe, for half a day or two or three days in the course of a year so your annual throughput is reduced from a calendar day to what we call a stream day basis.

THE CHAIRMAN: Fine.

MR. SANDLIN: At first I have a letter dated November 1, 1956, written on the letterhead of Great Northern Oil Company and addressed to

Mr. Arthur S. Flemming, Director
Office of Defense Mobilization
Executive Office of the President
Washington 25, D. C.



Dear Mr. Flemming:

We submit this supplemental statement for the official record of the hearing on oil imports before the Office of Defense Mobilization which commenced on October 22, 1956.

We have carefully considered the recommendations of the Presidential Committee on Energy

Supplies and Resources Policy set forth in your statement before the hearing. We firmly believe that the objectives of the Committee can be and will be achieved by individual voluntary action of the importers with proper safeguards for new oil importers.

Oil imports since 1954 have exceeded only slightly the 1954 relationship recommended by the Committee, particularly when increases over the 1954 relationship in District V are excluded, as they should be, as having no significant bearing on the dispute over imports. We fail to see, therefore how the Petitioner, the Independent Petroleum Association of America, before this hearing can in all fairness condemn voluntary cooperation that has resulted in substantial compliance with the 1954 relationship as a basis for inviting Federal control of the domestic oil industry through means of quota restrictions on oil imports. Surely, the critics of voluntary cooperation understand that the practical administration of quota restrictions on imports would involve Federal control of production, distribution and price of domestic crude oil. Further, it is almost inconceivable that such



critics would expect our Government to take any formal action against importers for minor infractions of the 1954 recommended yardstick when such action would violate so many agreements made in good faith with other nations and would undermine our relations with many peace loving nations of the world.

Since we are importers of Canadian crude oil only, we desire to emphasize particularly the soundness of the Committee's recommendation and your announced policy of exempting petroleum imports from Canada. We feel strongly that from the standpoint of national security the Government of the United States should treat crude oil reserves in Canada as domestic reserves for the reasons that Canada is our friendly land neighbor to the North and such crude oil reserves should be available to the United States by pipe line in the event of enemy attack. Further, Canadian crude oil reserves and our domestic crude oil reserves are a part of the common defense program between the United States and Canada as is evidenced by "A Statement of Principles for Economic Cooperation" entered into by Canada and our Government in 1950.

Testimony offered at the hearing on behalf of the Independent Petroleum Association of America even supported the proposition with respect to Canadian crude oil that the political climate, the petroleum laws and regulations, the geographical consideration and our mutual defense plans clearly justify differential treatment



of petroleum imports from Canada in making determination of the sole question before you under Section 7 of the Trade Agreements Extension Act, namely, whether you have reason to believe that the oil import situation is such as to constitute a threat to the national security of the United States.

The remainder of the testimony offered on behalf of Petitioner with respect to the ills of the domestic industry had one underlying theme, to-wit, a plea for a substantial increase in the price of domestic crude oil. We greatly favor an increase in the price of domestic crude oil, particularly in view of the fact that the principal stockholders of our Company are substantial producers of domestic crude oil.

However, we suggest that the Office of Defense Mobilization is not a proper forum for such an objective and further that the domestic producers comprising the membership of Petitioner would not be happy with prices fixed by the Federal Government for their crude oil production and neither would they be happy with Government directives determining the distribution of their production. We submit, therefore, that Petitioner wholly failed to establish any causal connection between the ills of the domestic oil industry and oil imports to date and certainly



failed to make any showing that our national security has been threatened or is about to be threatened as a result of the present level of imports.

We strongly oppose any policy of our Government whereby the flow of oil imports into the United States, more particularly from Canada, would be restricted or interrupted by Executive Order or otherwise. If, however, for any reason, not now known, the policy of the Government of the United States should be to impose restrictions on the importation of crude oil, including Canadian crude oil generally, we urge you to consider the case of Great Northern Oil Company as a special case within a special case for the good and valid reasons which we will hereinafter emphasize.

We own and operate an oil refinery at Pine Bend, Minnesota, which was built to process Canadian crude oil, principally medium light gravity crude oil of high sulphur and high asphalt content from the Province of Saskatchewan. While such refinery has been in operation since October, 1955, we have not yet completed the construction of it. However, it has been substantially completed and with the betterments which are now being installed, we anticipate that the design capacity will enable us to process the crude oil which we have contracted to purchase.

Our refinery was built at a cost in excess of \$25,000,000 under Necessity Certificate No.



TA-NC 3063 issued by the Office of Defense Mobilization as amended June 17, 1954. We originally contracted to purchase on a long term basis a source of supply of the above described crude oil in quantities equal to twenty thousand barrels per calendar day beginning January 1, 1956, and we became committed to sell under long term contract substantial quantities of products to be manufactured by the refinery. The financing of the refinery through equity capital, commercial bank loans of \$19,000,000 and the sale of subordinated debentures in the amount of \$3,700,000 was made possible by the following:

(a) The Necessity Certificate above referred to;

(b) The assured source of supply of Canadian crude;

(c) The assured market for a substantial portion of our refined products;

(d) Availability of the pipe line facilities of South Saskatchewan Pipe Line Company extending from the Fosterton Area in Saskatchewan to Regina Saskatchewan, where such pipe line system connects with the Interprovincial Pipe Line System;

(e) The availability of the pipe line facilities of the Interprovincial Pipe Line Company and the Lakehead Pipe Line Company, Inc., from Regina to Clearbrook, Minnesota; and

(f) The availability of the pipe line facilities of Minnesota Pipe Line Company from Clearbrook to our refinery.



We are advised that the aggregate costs of the pipe line systems of South Saskatchewan Pipe Line Company and Minnesota Pipe Line Company are in excess of \$25,000,000, thus making the total cost of the refining and pipe line facilities all geared to the purchase, transportation and refining of Canadian crude oil, in excess of \$50,000,000. We further understand that the pipe line facilities of Minnesota Pipe Line Company were constructed under Necessity Certificate No. TA-NC 27331 issued by the Office of Defense Mobilization. Of course, the foregoing cost estimates do not include the substantial investments made by the producers and sellers of the crude oil in exploring for and in developing the source of supply of Canadian crude for our refinery.

Due to the lag in production of the medium light gravity crude oil of high sulphur and high asphalt content in Southwest Saskatchewan which we agreed to purchase on a long term basis in quantities equal to twenty thousand barrels per day beginning January 1, 1956, as aforesaid, we were compelled to seek additional sources of crude oil of such quality and gravity in the Province of Saskatchewan (a) to meet the throughput requirements of our refinery to an extent approaching design capacity, (b) to enable us to meet our debt service to the Banks and the debenture holders and (c) to realize a reasonable return to our stockholders on their investment. Further, such additional crude oil was needed to provide



throughputs for the pipe line systems of South Saskatchewan Pipe Line Company in Saskatchewan and Minnesota Pipe Line Company in Minnesota which our principal stockholders were instrumental in constructing as the necessary transportation facilities for the movement of the crude oil to our refinery in conjunction with the pipe line facilities of Interprovincial Pipe Line Company and Lakehead Pipe Line Company, Inc. Accordingly,

we have contracted to purchase from Saskatchewan producers on a long term basis additional sources of supply of medium light gravity crude oil of high asphalt and high sulphur content in quantities up to fifteen thousand barrels per day beginning October 1, 1956, thereby making our total contract commitments for this quality and gravity of crude oil a maximum of thirty-five thousand barrels per day on a long term basis, all of such crude oil to come from the Province of Saskatchewan, Canada, in the Foster-ton, Dollard and Midale Areas.

We desire to emphasize here that Canadian crude oil is the only economical source of crude oil for our refinery; that without such crude our refinery would have to shut down; and, that from the standpoint of national security our refinery and underground pipe line facilities tied to it are important facilities on the northern border of the United States, useful for air defense in the event of enemy attack on this country coming over the Poles.

It follows from what we have above stated



that if the flow of Canadian crude oil to our refinery were restricted or interrupted or restricted by Executive Order of the President or otherwise, we could expect the following results:

(1) The investments of our stockholders would be impaired and possibly wiped out;

(2) Our loans with commercial banks, to wit, The First National Bank of Chicago, The Chase Manhattan Bank and The First National Bank of Saint Paul and the investments of the holders of our subordinated debentures would be placed in jeopardy;

(3) The Government of the United States would have failed to stand behind its Necessity Certificates issued to Great Northern Oil Company for the construction and operation of its refinery at Pine Bend and to Minnesota Pipe Line Company for the construction and operation of its pipe line system in the State of Minnesota, all geared to Canadian crude oil;

(4) The national security of the United States would be impaired to the extent that such action would tend to deny our nation accessibility to Canadian crude oil reserves in time of national emergency through a whole pipe line system connecting Canada with the Twin Cities area of the United States by a safe underground conduit, to-wit, an efficient crude oil pipe line system; and

(5) Trade relations with our excellent land neighbor to the North would be strained.



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TORONTO, ONTARIO

Therefore, we urge with all of our powers of persuasion that the case of Great Northern Oil Company is a special case within a special case in the event for any reason the policy of our Government which now exempts Canadian oil imports should be changed by formal action or otherwise so as to interrupt or restrict in any manner the flow of Canadian oil imports generally into the United States.

Again, we desire to commend you for your decision in accepting the conclusions of the Presidential Advisory Committee on Energy Supplies and Resources Policy with respect to the exception of crude oil of Canadian origin. We urge you, therefore, to deny the petition of the Independent Petroleum Association of America and in the interest of national security to continue to except crude oil of Canadian origin from statistics of oil imports to the United States with respect to any action which you may take or any recommendation which you may make in the discharge of your duties and responsibility under the Trade Agreements Extension Act of 1955.

Sincerely yours,

Marlin E. Sandlin
Vice President and
General Counsel

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MR. SANDLIN: (continuing) We later filed, on behalf of Great Northern Oil Company, on May 16, 1957, addressed to Honorable Gordon Gray, Director, Office of Defence Mobilization, Executive Office of the President, Washington 25, D. C., a letter which embodies substantially the same language, restating our case in view of the fact that Mr. Gray had, as Director of the Office of Defence Mobilization, made a finding that oil imports were then being brought into the United States in quantities which, in his opinion, threatened the national security, so I would like to tender this letter, but I think it is not necessary to read it in view of the fact that it will be a duplication.

THE CHAIRMAN: Thank you. May we mark that as an Exhibit?

MR. PATTERSON: Might the letter addressed to Mr. Gray from Great Northern Oil Company, dated May 16, 1957, be Exhibit R-15-7.

---EXHIBIT NO. R-15-7: Letter dated May 16, 1957, from Great Northern Oil Company to Director of the Office of Defence Mobilization, Washington, D.C.

MR. SANDLIN: We later filed with the President, on behalf of Great Northern Oil Company, a letter dated July 19, 1957, on this same subject, and I might say here that I believe this letter has enough -- I think its approach is quite different to the one I previously read and would be pertinent, in view of the fact this letter was filed only a few days before the President formally approved the



voluntary import program and part of the program adopted was reviewed with the Committee writing that program after this letter was filed.

The letter reads as follows:

"The President
The White House
Washington, D.C.

Dear Mr. President:

This will supplement our letter of May 16, 1957, to Honorable Gordon Gray, Director of the Office of Defense Mobilization, on the subject of crude oil imports which we understand Mr. Gray has passed to you for consideration in connection with the investigation which you are now making to determine whether impairment of the national security is in fact threatened by the present level of crude oil imports.

We reiterate that we are strongly opposed to any policy of our Government whereby the flow of crude oil imports into the United States would be interrupted or further restricted by mandatory action. Therefore, in addition to the facts and arguments presented in our letter of May 16, 1957, above referred to, we desire to urge the following points for your serious consideration, to-wit:

(1) While the delegation of power by the Congress to the President under Section 7 (b) of the Trade Agreements Extension Act of 1955 is probably without parallel in its breadth, such power can be exercised with respect to crude oil imports only upon the finding by you that crude oil is being imported into the United States in such quantities as to threaten to impair the national security.



(2) If, on the basis of your investigation, and the report to you of the findings and recommendations made in connection therewith, you determine that action is necessary to make an adjustment downward of crude oil imports to a level that will not threaten to impair the national security, we most respectfully submit that such imports can be effectively limited by a definitive plan for individual voluntary action of the importing companies.

(3) If, however, you determine under the circumstances set forth in Paragraph (2) above that mandatory action is necessary, we strongly recommend in such event that your executive order apply only to crude oil imports entering the United States by seagoing vessels of tanker design.

(4) If you determine under the circumstances set forth in Paragraphs (2) and (3) above that either voluntary or mandatory action is necessary in the interest of national security, we respectfully submit that our foreign policy should not require that our national security be subordinated to so-called "favored nation clauses" in our reciprocal trade agreements with Venezuela or any other nation.

Authority for Action

As above stated, Section 7 (b) of the Trade Agreements Extension Act of 1955 expressly authorizes the President to act if he finds that crude oil is being imported into the United States in such quantities as to threaten to impair the national security. However, as desirable as it may be to the recipients in the oil industry, no authority exists for the President to act to restrict crude



oil imports just for the sake of improving the health of the domestic oil industry.

If all crude oil imports (except those flowing into District 5) were eliminated completely, the domestic oil industry would be materially aided but the current ills of overproduction and low market demand would still haunt us. At the same time, our national security would be severely threatened by an inadequate supply of crude oil, even for peace time consumption.

Let us take a look at Texas for example.

Due primarily to excessive production and low national market demand, Texas now has only thirteen allowable producing days scheduled for the month of July and this same pattern will probably be set by the Railroad Commission of Texas for the month of August and for several months to follow, irrespective of any action taken with respect to crude oil imports. However, with its average daily production of crude oil and condensate of approximately 3,100,000 barrels for the four weeks ended July 5, 1957, Texas produced approximately 80,000 barrels per day more oil for this period than it did for the same period a year ago. Further, Texas has been producing about 30% more crude oil with fifteen allowable producing days than it produced with thirty allowable days nine years ago and approximately 25% more than three years ago with fifteen allowable producing days. Further, according to statistics recently released by The Chase Manhattan Bank, since 1948, the average production per allowable day in Texas has risen at the annual rate of



11.6% as compared to an annual growth of slightly more than 4% in domestic petroleum demand for the same period.

Now, with a very small increase (slightly over 1%) in the domestic demand for petroleum thus far in 1957, the increase in the domestic production alone is sufficient to create serious problems for Texas producers and all other domestic producers (particularly in view of the vast number of marginal wells in Texas and throughout the nation that are not subject to shutdown days at all) without any relation whatsoever to the crude oil imports and yet we know that within just a few years the fuel energy demand in the United States will be so staggering that our domestic production cannot possibly satisfy the needs for petroleum and we shudder to think of our national security in time of war without the availability of ample foreign crude oil as a tool of war to supplement our domestic reserves.

From the standpoint of national security, it is of utmost importance, therefore, to consider that without about 30,000,000,000 barrels of proved crude oil reserves, the United States has only 15% of the estimated 200,000,000,000 barrels of proved reserves in the Free World today. However, our 1956 domestic demand for petroleum of 8,800,000 barrels per day required our domestic production in 1956 to reach 48% of the world's output and our domestic consumption to reach 56% of the Free World consumption. We must face up to the fact, therefore, that unless miracles are performed in finding new crude oil reserves far beyond any record the domestic oil industry in the United States has yet attained,



even when petroleum imports were in their infancy, our national security will be threatened in a big way within a very short period of time in the light of future fuel energy demand, unless we increase, not decrease, our crude oil imports.

Based upon all long range forecasts of potential crude oil reserves and of fuel energy demand in the United States, it is our opinion that we are in a transition period where we are probably at the peak of our domestic producing potential in the United States, insofar as our ability to satisfy domestic demand is concerned and irrespective of how favorable the domestic atmosphere is made for the exploration and development of domestic crude oil reserves with all of the financial resources and governmental subsidies that are or can be made available to the domestic oil industry. On this point, I would like to quote from the article "Future Growth of the World Petroleum Industry" by Kenneth E. Hill, Vice President, Harold D. Hammar, Assistant Vice President, and John G. Winger, Petroleum Economist, of The Chase Manhattan Bank of New York, which was presented before the American Petroleum Institute, Division of Production, Rocky Mountain District, Casper, Wyoming, April 25, 1957, as follows:

'We have predicted that domestic demand by 1966 will grow to approximately 14.3 million barrels per day. And we are now faced with this question: Is it plausible to believe that domestic production can continue satisfying



90 per cent of the nation's tremendous thirst for oil? To achieve this objective and maintain our present reserve capacity, we would have to find one and a half barrels of oil for every barrel produced. Based upon the demand outlook as we see it, cumulative consumption of domestic crude oil in the next decade must total 38 billion barrels. Gross additions to reserves, therefore, would add up to 57 billion barrels. That means we ought to find 4.5 billion this year and gradually boost our discovery rate up to 7.1 billion by 1966. If recent drilling results continue, a total of 1.2 million wells would have to be drilled in the next ten years, ranging from about 86,000 this year up to around 165,000 in 1966.

'The magnitude of this program is staggering. And there are practical reasons for suspecting such results cannot be achieved. Past experience raises doubts that the industry will be able to develop the locations or provide the funds to carry out such a plan. We must be ever mindful of a very basic difference between petroleum demand and supply. Demand can grow indefinitely, being limited



only by population, economic activity and competition. But the supply of petroleum remaining to be found constantly grows smaller. Often in the early days of the industry, when production was a fraction of the current rate, there was unfounded apprehension that the nation was running short of petroleum. Such fears stemmed primarily from doubt concerning the physical existence of additional petroleum rather than the magnitude of effort to find and develop it. But today the situation is entirely different. The volumes with which we are concerned now are enormous by comparison. And to expand the nation's productive capacity by 5 per cent each year for another decade poses problems which appear almost insurmountable. It is possible to visualize conditions under which sufficient reserves of crude might be found for another ten years. But from the standpoint of national defense the economic and political costs to the American people would far outweigh the advantages.'

Of course, it goes without saying that in the absence of an adequate source of supply of domestic crude oil, crude oil imports must of necessity continue to flow into District 5 (West Coast) to



satisfy the market demand.

The action taken by Honorable Gordon Gray, Director of the Office of Defense Mobilization, on April 23, 1957, applied to crude oil only when he stated in his memorandum to you as follows:

'Upon the basis of present imports and their trend over the last several years, together with forecasts of their trend in the next few months, I do hereby advise you, pursuant to Section 7 of the Trade Agreements Extension Act of 1955, that I have reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security.'

We submit, therefore, that in view of the limitation of authority under which you are empowered to act, to-wit, national security, you are compelled to find, in our opinion, that no facts exist at this time which would authorize you or impel you to take any mandatory action to restrict the flow of crude oil imports into the United States in the name of national security.

Now, from the standpoint of the good health of the domestic oil industry, it may be that as President of the United States you should take the initiative to advocate higher crude prices and additional tax benefits as added incentives for exploratory efforts to expand our domestic crude oil reserves. Further, from the standpoint of national security, it may be that our Government should buy



crude oil from domestic and foreign sources in substantial volumes over the next decade and store it in the ground in abandoned reservoirs to be used as a tool of war for the purpose of national defense only in case of a national emergency. All such actions would certainly be in the interest of national security and would certainly be well received by the domestic oil industry. Further, such actions do not call for Federal control of the oil industry.

Individual Voluntary Action

We have advised Mr. Gordon Gray and we desire to repeat here that we firmly believe the objectives of your Advisory Committee on Energy Supplies and Resources Policy, which objectives appear to form the basis of the decisions reached thus far by you and Mr. Gray, can be achieved by a definitive plan for individual voluntary action of the importing companies with the proper safeguards for new oil importers.

Mr. Arthur S. Flemming and Mr. Gordon Gray, upon their own initiative and by direction from you, deserve much credit and commendation for their good faith and untiring efforts thus far to work out a solution to the perplexing crude oil imports problem on a basis of individual voluntary action of the importing companies. However, in our opinion, there have been two elements lacking that would add strength to the individual voluntary approach.

We suggest, therefore, that if, on the basis of your investigation and the report to you of the findings and recommendations made in connection therewith, you determine that action is necessary



to make an adjustment downward of crude oil imports to a level that would not threaten to impair the national security, we most respectfully submit that such imports can be effectively limited to whatever extent you may consider necessary by a definitive plan for individual voluntary action of the importers in which (a) you, or the Director of the Office of Defense Mobilization upon your direction, would recommend the adjustment that should be made by each importing company with respect to its present and future levels of crude oil imports, with reasonable safeguards for new oil importers and with adequate safeguards to prevent subterfuges by existing importing companies under the new oil importer classification, and concerning which (b) there would be given sufficient publicity to such definitive plan with respect to each importing company that the weight of public opinion would help make it work within whatever tolerance period would be set up to enable the adjustments to be made by the individual importing companies.

It is assumed, of course, that under this approach crude oil imports from Canada would retain their exempt status as they have in the past.

Tanker Crude Oil Imports

We believe all would agree that crude oil reserves available to the United States by underground pipe line facilities would be far more useful in the defense of this country against enemy attack than crude oil reserves available to us by seagoing tankers in such a national emergency. Therefore,



from the standpoint of national security, sound strategical planning of the defense of this nation would, in our opinion, call for no interruption or restrictions of any kind whatsoever that would either discourage the development of the crude oil reserves in Canada and Mexico or that would in any way restrict the availability of such crude oil reserves to the United States by underground pipe line in the event of an enemy attack.

We recommend, therefore, that any mandatory action which you may deem necessary to take apply only to crude oil imports entering the United States by seagoing vessels of tanker design.

Favored Nation Clauses

We subscribe very strongly to the proposition that the economic health, welfare and prosperity of this nation depend to a great degree upon the continued success of the reciprocal trade program which has been so highly successful from the days of Honorable Cordell Hull down through ten highly successful years of operation of the General Agreement of Tariffs and Trade. We should say here also that it is almost ridiculous that the Congress has not yet authorized United States participation in the Organization for Trade Cooperation to strengthen and make more fully effective a businesslike administration of the provisions of the General Agreement on Tariffs and Trade, all of which is designed to enable us to expand our export markets for all products.

However, as much as we believe in the reciprocal trade program, we must in good conscience say that, in our opinion, the foreign policy of our

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Government should not permit national security to be subordinated to any trade agreement. Therefore, we very strongly urge that no action be taken, whether by an individual voluntary plan for action by importers of crude oil or by mandatory action, which would interrupt or restrict in any manner whatsoever the availability of crude oil reserves in Canada and Mexico to the United States through underground pipe line facilities in the event of enemy attack. If, therefore, there exist any agreements with Venezuela or any other nation that would be violated by a policy of the United States thus protecting its national security, we recommend that such agreements be renegotiated and that such action, whatever it may be, be made to apply only to crude oil imports entering the United States by seagoing vessels of tanker design.

We assume that there does not exist any trade agreements with the Middle East oil countries which would present any problem in the event our international policy is in effect made to allow discrimination in favor of our land neighbors, Canada and Mexico, from the standpoint of national security. We do understand, of course, the diplomatic problems that would arise immediately, particularly with respect to any mandatory action by the President, insofar as our agreements with Venezuela are involved. However, there is a very sound basic reason why Venezuela should not in its enlightened self-interest object to our discrimination in favor of Canada with respect to the policy of our Government on crude oil imports.



Canada now has a ready and continuing market in the Montreal Area for approximately 200,000 barrels daily of Venezuelan crude oil. If the United States were to impose either by a voluntary plan or by mandatory action any restriction (higher tariff or quota) against crude oil of Canadian origin, it would be reasonable to expect that Canada would retaliate by imposing an export duty or quota restrictions on its crude oil into the United States and by causing its transcontinental crude oil pipe line system to be extended into the Montreal Area to enable the crude oil from the Western Provinces of Canada to supply the Montreal market. In such event, Venezuela would very quickly find itself without a market for the approximately 200,000 barrels of crude oil which is presently being marketed in Eastern Canada without even considering the marketing problems that would arise with the discoveries of additional crude oil reserves on the concessions that are currently being worked by new syndicates in the prolific oil bearing regions of that country. Venezuela should be compelled, therefore, from the standpoint of good business judgment, if for no other reason, to embrace any policy of our Government that would give preferred treatment to Canada with respect to Canadian crude oil imports into the United States.

Conclusion

We urge in conclusion that no mandatory action be taken by you to further restrict the flow of crude oil imports into the United States. If,



however, you find that further action is necessary, then we urge you in the interest of national security to give preferential treatment to our land neighbors, Canada and Mexico, and to apply such action (of whatever nature) against crude oil imports entering the United States by tanker only, notwithstanding the provisions of any trade agreement which would appear to transcend the inherent right of our Government to adequately provide for the national defense of this country.

Very respectfully yours,

Marlin E. Sandlin
Vice President and
General Counsel."

Do you want to mark that?

THE CHAIRMAN: I do not think it needs to be marked as an Exhibit, because you read it and it will go right in.

MR. SANDLIN: Fine. Thank you.

I next would like to offer a letter written on behalf of Woodley Petroleum Company to the Members of the President's Cabinet Committee who investigated crude oil imports, which carried with it the recommended plan of action which we submitted to the Cabinet Committee for consideration.

As I previously stated, I would like to file this letter and the attachments, but I think the attachments are of a technical nature and, therefore, if they became part of the record, they may be of some interest as you make your studies of the entire record and your recommendations later.

I mentioned earlier that we had changed our



position with respect to the policy that was to be followed by our Government in that we recommended that the President proceed to take mandatory action because of the tremendous increase in imports of crude oil from Venezuela and the Middle East countries that were backing out on domestic production and threatening our whole domestic economy; but, at the same time, we continued to stress the importance of exempting Canadian oils, for the reasons we have previously stated.

Now, this letter is not as long as the others, so I may read it rather quickly. It is dated March 10, 1958 and is addressed, "Dear Mr. Secretary," but it was written to all of the Members of the Cabinet Committee, including several individuals representing the Committee.

THE CHAIRMAN: Would you give the date again?

MR. SANDLIN: March 10, 1958.

"Dear Mr. Secretary:

We enclose herewith for your consideration a draft of an executive order providing for means to adjust imports of crude oil of foreign origin to levels which will not threaten to impair the national security together with a supporting memorandum.

While the Voluntary Oil Import Program has been successful to date and has been ably administered by Captain M. V. Carson, Jr., a number of factors beyond the control of the Administrator and of the President's Special Committee to Investigate Crude Oil Imports have intervened which, as we view the situation, threaten to break down very rapidly



the achievements of this program and which, in our opinion, make an executive order establishing quantitative controls on crude oil of foreign origin a necessity in the interest of national security.

Some of the pertinent points are: (a) our experience with the existing depressed domestic demand for petroleum products has proved substantially correct the conclusion reached in 1955 by the Cabinet Committee on Energy Supplies and Resources Policy that petroleum imports in excess of the 1954 relation endangers future domestic supply needed for national security; (b) some of the importing firms have refused to comply with the quotas assigned them; (c) there are no standards fixed or which can be established by which equitable quotas can be determined with respect to new applicants in relation to the existing importers; and (d) a substantial increase in crude oil imports as reflected in new applications made and to be made for quotas for distress crude oil, particularly from Venezuela, and the depressed domestic demand for petroleum products threaten a general breakdown in the crude oil price structure in the United States and a collapse of the domestic oil economy in all its phases.

If we are to make a real effort to prevent a collapse of our domestic oil economy and to avoid legislative quotas or restrictions more vicious on all petroleum imports, the present situation calls for a prompt new approach, in our opinion, by executive order to (a) establish standards by which equitable distribution of the total crude oil imports can be



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determined for all applicants and (b) to reduce the total crude oil imports for reasons of national security from levels set in the voluntary program down to about the average relation of crude oil imports to domestic demand for the years 1954 to 1957, inclusive. In this connection, it is considered most desirable, if not essential, in our opinion, for this new approach to treat Canadian crude oil reserves as domestic reserves for purposes of national defense, and, in the interest of national security, to allow the free flow of such crude oil into the United States, whether by specific exemption or by a formula designed to create the least unfavorable reaction by other nations.

It seems clear to us that such courageous policy on the part of our government, determined to be in the interest of national security, would not do violence to our multilateral trade agreements with Venezuela and the Middle East nations. Further, since Venezuela enjoys a substantial market for its crude oil in eastern Canada which would be cut off in the event Canada should move crude oil from its western provinces to its eastern markets in retaliation against Venezuela and the United States, Venezuela should embrace preferential treatment to Canada by the United States. The Middle East countries cannot rightfully and in good conscience deny us the right to protect our national security or to strengthen western hemispheric defense.

In view of the deterioration that has occurred in the domestic industry, Congress is not likely to be satisfied unless a program is announced



promptly designed to restore and to maintain the 1954 relation (or substantially so) of petroleum imports to domestic demand, at least with respect to crude oil. Such a program, with effective penalties for violation, can be announced and placed into effect promptly by the President under Section (7) (b) of the Trade Agreements Extension Act of 1955. Delay in announcing such a program will create more pressure for specific regulation of all petroleum imports by Congress. Prompt action by the President on the other hand will greatly improve the prospects for the passage of the Trade Agreements Extension Act sought by the Administration because it will show that the President can and will deal with situations that constitute a threat to national security.

If we can advise with you further regarding the subject matter of the enclosures, we stand ready to do so and to assist you in any way that we possibly can to formulate a crude oil imports program designed to prevent further deterioration of the domestic oil industry in the interest of national security."



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MR. PATTERSON: I think we had better file that letter as we have already filed the others. This is a letter from Woodley Petroleum Company dated March 10, 1958 addressed to Mr. Secretary, which would become Exhibit R-15-8. There are attached to it a draft of an executive order and comments of a proposed executive order which may be part of the same exhibit.

---EXHIBIT NO. R-15-8: Letter from Woodley Petroleum Company dated March 10, 1958 addressed to Mr. Secretary, and attached thereto draft of executive order and comments of proposed executive order.

MR. SANDLIN: By way of additional statistics I verified, a few days ago, that the imports into the eastern part of the country from Venezuela last year were in excess of the 200,000 barrels that I commented on. In other words, crude oil from Venezuela in 1957 averaged 232,000 barrels per day, and products 4,000 barrels per day; so that represents a marked increase in Canada.

THE CHAIRMAN: I was interested in the remark you made that Canada might retaliate by shipping oil from the West to the Montreal market. Do you think that is a fair way of putting it?

MR. SANDLIN: Of course, maybe it is not a fair way to express it, insofar as Canada is concerned. Of course, my objective there was to try and get the point over with our own government that that is possible, and I was interpreting that if Canada did so, if by a national policy, shall we say, they subsidized a crude oil pipeline from



Western Canada to Eastern Canada and created a market for Western crude oil, that action would probably be taken only because of the fact that markets in the United States were restricted in the meantime or threatened to be restricted and, therefore, you were acting in your own self-interest to protect a long-range program.

THE CHAIRMAN: Let us think about that for a moment: I am not advocating one course or the other, but I am trying to bring out the facts. Most of the material which you read to us is based on the national security of the United States.

MR. SANDLIN: Yes.

THE CHAIRMAN: And in that you say the national security of the United States, and you repeated it several times, would be imperilled if there were hostilities by reason of the water carriage of oil by tanker. Would not those same considerations apply to Canada?

MR. SANDLIN: You mean, in other words, you need those imports?

THE CHAIRMAN: In other words, would we not be as vulnerable to tanker losses in the event of hostilities in being dependent upon bringing in all oil by tanker from, let us say, wherever it is coming from as the United States would be?

MR. SANDLIN: In other words, if you are depending upon that as a source of fuel energy?

THE CHAIRMAN: But are we not today in the Montreal market?

MR. SANDLIN: Yes, in the Montreal market you are depending upon the sea-going tanker



primarily for your source of crude.

THE CHAIRMAN: Yes, you said 233,000 barrels a day.

MR. SANDLIN: But from your standpoint, if it came down to a point where you had to build, as a matter of national defence, a pipeline across Canada you could do so as we did; we built a little inch pipeline in the United States for products during the last war. Of course, it would be greatly subsidized; it would be an emergency. When I mentioned a retaliation policy by Canada against the United States policy, I was thinking in terms of a peacetime, ordinary, good business operation. In other words, a pipeline built in an absolute national emergency, in my judgment, would require -- I mean from the west to the east in Canada -- would have to be subsidized substantially in one of several different ways. Either in the way of cash outlay, making the pipeline possible and probably have a reduced wellhead price which, again, would be a way of subsidizing, to an extent, of producers and provincial governments. As a matter of economics, oil should normally flow to its natural market in a way that the highest wellhead price can be paid with the lowest cost of transportation and making for the best trade in the development of the industries concerned, and to me, and to us I should say, to me and my associates, we regard the Great Lakes market in the United States as a natural market for Canadian crude, and also we regard the West Coast as a natural market for Canadian crude because it is accessible, and because of the cost of transportation a higher wellhead price can be achieved.



Therefore, we feel that our government should allow those natural markets to exist and should not take any action to interfere with those imports.

THE CHAIRMAN: Following what you are saying to a practical conclusion, would you not shut down most of the domestic production in the United States? That is, as the cheapest crude and the oil moving to its natural market from the point of view of price based on economics.

MR. SANDLIN: Of course, I know there would have to be some reasonable limitation down the line. When I say free flow, I am assuming for the years ahead the markets will not justify the building of pipeline facilities into any other than these concentrated areas where the pipelines now exist and, therefore, when you say the oil will move -- in other words, if you will allow the free flow of oil competition will take care of the rest of it by nominations and demand. In other words, it would be more economical for this oil to get into the upper part of the West Coast of the United States or the entire West Coast than oil from the Western part of Texas or the mid-continent area.

THE CHAIRMAN: Looking at that realistically, that will not happen. In time, I suppose, we will have figures given to us to demonstrate that Canada has, at the present time, a surplus of proven oil reserves. I am assuming that from discussion and, consequently, presumably there is oil to export; whether or not that will happen is another matter, but assuming that is so, do you think it is realistic to think in terms of Canada being able to export



to the United States all her surplus oil?

MR. SANDLIN: I do not think it is reasonable to assume, no, that the United States market will absorb all of it, but my main point being to the extent to which the United States market can and is willing to absorb Canadian oil, it should be free to do so. In other words, there should not be government restrictions that put road-blocks in the way of nominations being made by refineries in the United States for Canadian oil if those refiners prefer to process Canadian oil in preference to oil in the United States, or from other sources. But I agree with you, I do not think that Canada could expect, certainly not within a short-range program, to find a market in the United States for all of the surplus crude; but I do think Canada would like to know to the extent the people will buy, and that there is nothing to interfere with the movement of that oil.

THE CHAIRMAN: It has been suggested, of course, Canada should bring her oil east for the very reasons that you give as to why there should be restrictions except within the special cases. In other words, on the basis of national security, that would affect the importation from Venezuela.

MR. SANDLIN: That would blackout the Venezuela crude in the east.

THE CHAIRMAN: In the event that Canada did not do that, -- let us approach it another way. In the event that Canada is not having crude from her own resources available in the most highly industrialized sector of our country, and in the event of hostilities the inability to get oil by



tanker, there would be no other source of oil in Eastern Canada.

MR. SANDLIN: In Eastern Canada, that is right. You would be compelled, as an emergency, just as we did in the United States in the big instance, of building little inch lines in very short order -- to build a line from Western Canada to Eastern Canada.

THE CHAIRMAN: Leaving out the emergency basis: I agree with what you say, but leaving out the emergency basis and putting it on the straight basis of development of oil and other developments in Canada as a means for finding a market which, I think, you will admit will not be found for all her surplus proven reserves now existing, do you say you would only build such a line in an emergency?

MR. SANDLIN: I am sure I did not make myself clear. I am speaking in terms now of the known producible reserves when I said that pipeline would have to be subsidized so highly at this time. I did not mean that would not be a good project later down the line. In other words, I can see, in a relatively short time, Saskatchewan and Alberta going forward with their development programs where there would be sufficient quantities of oil in excess of the present market demand where you would either have no choice or else you would be able to transport large enough quantities that it would be economically feasible to go ahead and finance and build a line.

THE CHAIRMAN: I am sure we will have figures given to us, but I am taking advantage of your being president and picking your brains from the point of view of your experience and knowledge.



We have not had those briefs presented to us yet, but I am sure there will be submitted to us that it would cause further development for oil and gas industries in Western Canada, and even if not on the face of it economically sound, would result in a great benefit and national security, so that it should be done. Would you not agree that such a market opened up of 200-odd thousand barrels a day, or whatever it is, would greatly stimulate the production, at least, the exploration for oil in the western provinces?

MR. SANDLIN: There is no question about it; I quite agree. While I am not an expert on the subject, certainly, and have not made any research on it or had anyone make research for me of the producibility of the reserves in Alberta and Saskatchewan, it has been my impression that there is not sufficient oil now that could be produced even if you produced all outlet to full capacity to make this project to the East economically feasible, unless you take our oil that is going into the Twin Cities and take oil that is going to the West and dedicate it to the line.

MR. BROCKELBANK: Mr. Chairman, could I interject a question here that I would like to ask Mr. Sandlin?

THE CHAIRMAN: Certainly.

MR. BROCKELBANK: This is following up the question that would be given to exploration. A market opened in our natural economic area in the Lake States will, also, certainly give incentive for exploration.

MR. SANDLIN: That is correct.

MR. BROCKELBANK: And under the present



immediate circumstances, do you think it is on a par or even more important than the talk of a Montreal market, going back to the price in the field.

MR. SANDLIN: Naturally I believe, based upon my little knowledge of the total picture, that our wellhead prices will be achieved for the immediate future, as far as we can see ahead by expanding markets in the Great Lakes area, because you are closer to the wellhead and I believe that is right. I think the interests of the oil industry and the provinces, as the owners, would be best served by exploring, I mean to the nth degree, all of those natural markets before you would resort to this other program. That is just my judgment about it.

THE CHAIRMAN: There is the other side of it, also. As I understand it, it would be far better to have the big portion of these oil reserves left in the ground for emergency and utilize off-shore oil crude in the meantime.

MR. SANDLIN: Of course, that has been an argument that has been advanced in the States also. The argument on the other side, that is in rebuttal to that argument, unless you keep finding new reserves then, all of a sudden, you find that people will lose interest in finding any at all. It is hard to say we are going to leave it in the ground; you have to keep finding.

THE CHAIRMAN: To the extent of my limited knowledge, and according to one of our advisers, I think there is some misunderstanding between us on the present-day potential reserve surplus of oil in Western Canada which amounts to, approxi-



mately, 400,000 barrels a day at the moment in excess of what we are utilizing and exporting.

MR. SANDLIN: As I told you, I have not made any study of that, but my general impression was, and I am talking about producibility, or are you speaking in terms of producibility in barrels?

THE CHAIRMAN: I think that is correct.

MR. SANDLIN: I am glad to be corrected on that, because I have not made any study on that. I was under the impression that Alberta was producing only about 50 per cent.

THE CHAIRMAN: About 47 per cent.

MR. SANDLIN: Of its producible capacity, but that is more than I realized would be available.

THE CHAIRMAN: In other words, assuming for a moment that such a thing did happen, I do not think any organization such as yours would have to be concerned about your oil being cut off. I just bring that up in reply.

MR. SANDLIN: I did have that concern at the back of my mind; that is, from our selfish standpoint, naturally, but at the same time even assuming, as of now, that you would go ahead with this project faced with that volume of crude you are thinking about, I do not know, I have not seen it spelled out, but my impression would be that it would be a very costly line to duplicate to the east, parallelum, at least, to a line of that magnitude. I think you would find you would have a lower wellhead price and the cost down the line.

THE CHAIRMAN: Even if you are selling at a lower price, if you sell more you do better.



MR. SANDLIN: As a long-range program, but I cannot help feeling that you probably would lose a lot of the other natural markets because if you did that, then the tendency would be for those markets in the States that now have room for expansion, would probably be filled by crude oil from other sources.

THE CHAIRMAN: That brings me to another point that I wanted to ask you about: you have, obviously, been very close to the administrative authorities in the United States dealing with this oil problem.

MR. SANDLIN: The last three years.

THE CHAIRMAN: What would be your judgment as to how long this period of uncertainty, from the point of view of Canada, as to getting markets in the United States for oil, how long is this going to last?

MR. SANDLIN: It is the \$64 question. I wish I knew. I would say this: that we are confronted with some sort of a definite policy decision both in Congress and the President between now and June 30th because that is the date at which our reciprocal trade law expires. So that is the most immediate period. Then, we will know between now and then what that policy is going to be, whether it will be a continuation of the present voluntary program or whether Congress will bring pressure to bear to take mandatory action. If we get by June 30 with no further action being taken, then I think as to whether there will be any action taken beyond that by the President would depend entirely upon the general economic conditions in the States and the oil industry. If we get by June 30 --because I know,



in the first place, the President does not want to take any mandatory action unless he is absolutely forced to do so, so if he gets by Congress on June 30, I doubt whether he will sign any order for executive control except for a serious economic condition in the United States.

THE CHAIRMAN: You feel you are a special case within a special case?

MR. SANDLIN: Yes.

THE CHAIRMAN: Would not the average or ordinary Canadian producer of oil feel somewhat helpless and uncertain with respect to the market in the United States south of the border, and would he not feel, even if this situation were rectified within six months, which I cannot imagine it would be, but assume that it is, has he any reason to think or be hopeful it would not occur again in three or four years when he had built up his export market into that area?

MR. SANDLIN: That is certainly true. It is that uncertainty of policy that is one thing in my small way that I have been trying to get over to this Committee, that there should be a definite and positive policy statement, particularly with respect to Canada. They started out with the original back there in which they declared the policy as an exemption, and that was more healthy and hopeful and everybody knew what they could depend on. So, at this time I happen to know that the State Department in the United States is planning to start a program; it may take two or three years to work it out, if it can be worked at all, but it is a plan whereby



they would like to see some sort of an agreement supplementing what we now have between Canada, the United States and Venezuela, particularly being in the nature of a western hemisphere agreement that would establish a policy that all three countries would know how we could operate under it. In other words, we made the argument that Canada, having already embraced not only reservoir conservation, but other conservation practices, market demands, rateable takes, is entitled to first consideration in addition to all these other reasons we have given, and if Venezuela would recognize the same practices instead of producing a well down there of five or ten thousand barrels a day to compete with a well in Texas of 100 barrels and with a well of 100 barrels in Saskatchewan or Alberta, this makes a somewhat sensible program of matching well against well; so Venezuela would be satisfied to allow X per cent of its oil to go into the United States and Canada, and Canada would have a certain percentage going into the States. Some have planned to initiate this shortly, I suppose, because they are apparently working on it, because they had taken step one when they had this meeting, so that would be calculated to do what you are speaking of, and I am afraid unless something is done in that direction you are going to be faced with the uncertainty you have spoken about.

THE CHAIRMAN: A producer of oil in Western Canada would prefer to have a market he knows is going to exist for all time than to take his chances on a foreign market where he may be shut out at any time.

MR. SANDLIN: You understand, I have not



gone into the economics of this other pipeline.

THE CHAIRMAN: Neither have I.

MR. SANDLIN: I am not really competent to express an opinion; I am really expressing a view and my reaction as to the probability of what would happen to wellhead price for some period, whether it would be two or three years.

THE CHAIRMAN: Do not think I am expressing an opinion; I am trying to get your point of view.

MR. SANDLIN: It would involve substantial sacrifice on the part of the producers. In the event of a national emergency, you would have to build a pipeline across there.

THE CHAIRMAN: Provincial governments in Western Canada are in such a healthy financial state they would not worry.

MR. BROCKELBANK: And we have some good healthy corporations.

THE CHAIRMAN: Just to warn you, Mr. Sandlin, I am going to ask you, when we come back, to trace a barrel of oil from one of your fields, Dollard or wherever it is, and tell us who owns it and what it costs.

MR. SANDLIN: Very well, I have the figures here.

---A short recess.



THE CHAIRMAN: Gentlemen, we will resume our hearing. Mr. Sandlin, can you trace the barrel of oil for us?

MR. SANDLIN: Yes, I can trace it.

THE CHAIRMAN: In view of the complexity to an outsider, to ourselves, of the Corporate set-up, so to speak, would you tell us by companies as you go along.

MR. SANDLIN: Yes, I will be happy to.

I wonder if I might make one short observation on the subject we were discussing a while ago. That is on the question of the national security of Canada in the event of crude and eastern markets being cut off by seagoing tankers. I intended to follow that by saying that crude oil could be very easily delivered into Western Canada from the United States from Chicago area. The pipelines go very close already. In the event that you had to have it for any reason, whether an emergency or otherwise, that oil could be delivered in a matter of just a very short time. In that event, of course, that would drain more oil from the mid-continent area of the United States and allow greater markets for Canadian oil readily accessible by pipeline. I intended to mention that as an alternate program but I forgot it.

MR. COMMISSIONER LADNER: It would be virtually an exchange.

MR. SANDLIN: Yes. We do have a lot in common that we can work if we get our heads around the table between the two governments and work it out.



On the question of tracing a barrel of oil I might explain that in our bookkeeping process we work all of these factors from the refinery back to the well head, instead of the well head down, so I was trying to interpolate here to see how I could make this easier to present to you gentlemen. I have before me the calculation that we use and when I say "we" I am talking about Great Northern Oil Purchasing Company in purchasing the Fosterton type in February, 1958.

THE CHAIRMAN: The Great Northern Purchasing Company or any of these associated companies, do they own the oil in the field or do they hold leases or do you buy from outside producers entirely?

MR. SANDLIN: Let me make this explanation. First, Great Northern Oil Purchasing Company is owned principally by Woodley Petroleum Company and Sinclair Oil, Crude Oil Purchasing Company. Woodley Canadian Oil Company is wholly owned subsidiary of Woodley Petroleum and Sinclair Oil of Canada is a wholly owned subsidiary of either Sinclair Oil Corporation or Sinclair Oil and Gas Company. In any event it is a wholly owned Sinclair Company. They are producers in the joint operations with Mobil Oil of Canada in the fields I named in my submission in the Fosterton Area.

THE CHAIRMAN: I don't mean to interrupt you, I just want to understand you. In reality the Great Northern Purchasing Company in purchasing in Saskatchewan, take the Fosterton Area, is purchasing from leases or from rights, purchasing oil owned by and produced by Woodley in Canada and Sinclair of Canada



and Mobil Oil?

MR. SANDLIN: , Yes, and others. In other words Great Northern Oil Purchasing Company is purchasing all of the Fosterton type oil in south-western Saskatchewan and is purchasing rateable in all the fields. Great Northern Oil Purchasing Company posts a price of this crude in all the fields.

In so far as Mobil Oil of Canada and Sinclair and Woodley Canadian are concerned, Great Northern Oil Company is administering those long-term contracts between those companies and Great Northern Oil Company, which call for a well head price, not necessarily a posted price, but delivery or well head price.

Now as a matter of policy since Great Northern Oil Purchasing Company is buying oil from others not parties to this long-term contract we are buying that oil on a posted price basis, so in effect in the administration of these contracts we wind up buying all of the oil on a posted price. Obviously we could not have two prices in the field, therefore we have to pay everybody the same price even though the posted price may be a little more than the contracts we have with these companies.

So we start out with posting a price in the field in the name of Great Northern Oil Purchasing Company. First, in order to determine what that posted price is going to be it is related to the so-called well head price of these long-term contracts, which in fact determine the price and policy because of the fact that oil is being moved into the Twin Cities Area, as I referred to in the submission. I mean it is moving



They paid them in March in Canadian funds at the rate of \$1.71 1/2 for delivery during the month of February. Now the additional cost then of the crude oil to be added to the well head price is as follows: the gathering charge is 10¢ per barrel. The marketing fee is a penny a barrel, 1¢ per barrel. Then we add those three items and that equals \$1.825. Then against that figure we compute the line loss, or what we call it normally 1%, which is .0183. Then we also add, to later deduct, the Canadian portion of the trunk line tariff from the Cantuarstation to our refinery at St. Paul, Minnesota. That is 38¢ Canadian.

THE CHAIRMAN: What company is that?

MR. SANDLIN: I forget the company. The gathering charge goes to South Saskatchewan Pipe Line Company and the marketing fee of a penny a barrel goes to Great Northern Oil Purchasing Company. Of course, the pipeline deduction of the 1% is an allowance made for the benefit of all of the pipeline Companies from the well head to the point of delivery.

The Canadian portion of the tariff of course, is paid by Minnesota Pipe Line Company as the last pipeline or the pipeline making the delivery to the companies that are entitled to receive a Canadian portion of the tariff, South Saskatchewan Pipe Line Company and Interprovincial Pipe Line Company. They would be paid the 38¢.

THE CHAIRMAN: May I ask how that 38¢ is arrived at?

MR. SANDLIN: That is the Canadian portion of the tariff that is arrived at by what we call a division of the revenue charged by the respective



into an area in which products are being marketed from crude oil process in the States and in turn from crude oil shipped into Chicago Area from the western United States.

We take the average delivery price of these reference crudes laid down in the Chicago market as a starting point to determine what the delivery price or posted price is going to be from month to month or period to period. For the month of February, 1958, the average delivery price of reference crudes or crudes that we used as reference crudes for Fosterton types laid down in Chicago was \$2.6121, in United States dollars.

I am going to make this explanation to show how we arrive at it. We took the Government cost and the main line tariffs and take the cost of Canadian exchange and we take the cost of customs and United States import tariffs and the commission and marketing charge and what is left after we get through deducting all those items from this Chicago price is the resulting well head or posted price.

To take the month of February, for example, the well head price for Fosterton crude in the Fosterton fields area, in other words that would embrace all of the fields that tie in the Cantuar station distinguished from the Dollard extension.

We will start with the well head price of \$1.715. At that point Great Northern Oil Purchasing Company has posted a price.

THE CHAIRMAN: That is Canadian.

MR. SANDLIN: Yes. They would take delivery from the producers in those fields, or did during the month of February, and paid them in March or will pay.



lines by an agreement which is in part of the tariff agreement between South Saskatchewan and Interprovincial and Minnesota Pipe Line on a negotiated basis.

Normally this division of joint tariff follows on a pattern usually where it can be applied on a 10 - 90 rule. That is dividing the first 10 per cent tariff equally among the pipeline companies involved and then dividing the remaining 90 per cent on a mileage basis. That was not possible in this case here because of the fact that we built a very high cost pipeline, South Saskatchewan Pipe Line Company and also Minnesota Pipe Line Company, and in order to finance and make possible the buildings of these lines we had to fix rates that would be adequate to provide revenue to meet surface overhead and so forth. The division of that tariff is negotiated on the Canadian portion. You want a breakdown. We have never up to now, that I know of, given this information except to the Government as to just exactly how we negotiated this but if it is material I don't want to be in a position - -

THE CHAIRMAN: What is the mileage that the oil travels over the Minnesota Pipe Line?

MR. SANDLIN: The Minnesota Pipe Line mileage is 256 miles.

THE CHAIRMAN: And the South Saskatchewan?

MR. SANDLIN: 156 miles. Interprovincial Pipe Line Company and Lakehead together 472 miles.

We gave it in the last hearing so we will go ahead.

THE CHAIRMAN: I don't want to embarrass you.

MR. SANDLIN: No. We did have policy



reasons since it involved other carriers and without prior agreement whether we would release information we did not do so. It was in the last hearing, Mr. Black just told us.

THE CHAIRMAN: What hearing would that be?

MR. SANDLIN: The hearing we had on the Dollard extension line where we secured a permit.

THE CHAIRMAN: That would be before the Saskatchewan Oil and Gas Conservation Board.

MR. SANDLIN: Yes. I had forgotten we had given that information. The participation in that Canadian portion is 38 cents, 17 cents to South Saskatchewan Pipe Line Company and 21 cents to Interprovincial Pipe Line Company and Lakehead Pipe Line Company. How they divide that between their two companies I would not be advised.

THE CHAIRMAN: Lakehead is a subsidiary of Interprovincial.

MR. SANDLIN: That is paid to them jointly. At that point we arrive at a figure of \$2.2133. If you follow our calculations that is expressed in Canadian dollars. In order to relate that to U.S. price we have to convert at that point. The United States equivalent on the basis of the cost of the exchange on the date of payment was 103%. Actually we wind up with U.S. cost of \$2.277. Then we add the United States tariff of 31¢.

THE CHAIRMAN: That is Minnesota Pipe Line Company.

MR. SANDLIN: No. I mean it is split between Minnesota Pipe Line and Lakehead. Lakehead starts at Gretna, I believe, in the United States.



THE CHAIRMAN: Clearbrook would be the take-off point.

MR. SANDLIN: So for that leg of their distance, I don't know what the distance is Lakehead Pipe Line Company receives 10¢ a barrel of the U.S. 31¢ that I gave you.

THE CHAIRMAN: 31¢, is that the total transmission line charges south of the border.

MR. SANDLIN: Yes. There is the U.S. portion. When I say U.S. portion, it is the total in U.S. dollars. In other words, we divide it on a basis of 38¢ Canadian, 31¢ U.S., total pipeline tariff of 69¢ a barrel from the Cantuar station to Pine Bend and the 31¢ represents the total U.S. portion of the 69¢, which is divided 10¢ to Lakehead Pipe Line Company and 21¢ to Minnesota Pipe Line Company.

THE CHAIRMAN: Interprovincial having been paid out of the 21¢.

MR. SANDLIN: Yes. In other words Interprovincial, that 10¢ goes into the Interprovincial and Lakehead Treasury. How the, finally take division of the 10¢ U.S. and 21¢ Canadian I don't know, except I believe actual payment by Minnesota Pipe Line is paid direct to Lakehead. It is a bookkeeping matter I am not advised on accurately.

Then we wind up there we have paid a total of 69¢ as far as main line tariff. The next item of expense is U.S. import duty, is 5 1/4 ¢ per barrel on this gravity of crude oil. You add that to the column and then in addition to the trunk line tariff which Minnesota Pipe Line participates in, Minnesota



Pipe Line makes a charge which is for its own account, but is part of the tariff. That is a tariff schedule of 8/10 of 1% of the delivery price of the crude as an additional transportation charge. For the month of February based on the delivery price of the crude that charged figure is .0209¢ per barrel.

Then you should have now a total price of \$2.6631. Now that figure should equal the laid down cost of the reference crudes in the Chicago area. You will see a difference there of about 3 1/2 cents for the month of February. In other words we paid about 3 1/2¢ more money for the crude delivery during the month of February than we were obligated to pay under our long-term contract with these producing companies as named a few moments ago. I beg your pardon it is 5 1/10¢. There are two reasons for that. In the first place we had tried, in so far as we had been able to do so, to stabilize the posted well head price of the crude. We don't like to raise it one month and for reasons lower it the next month. We have tried to maintain price stability. Secondly, we have a great difficulty in this policy of keeping it accurate because of fluctuations in currency. During the latter part of last year the exchange dropped almost to par at one time, in the latter part of November or December, so we immediately raised the well head price. We raised it the latter part of November. Anyway, we made two raises in the last few months. One effective November 1st and then December 20th in order to apply the reduction in the cost of this crude delivery at St. Paul in the



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currency exchange. Now it is going back very rapidly. We are going back the other way. Whereas we were not paying enough on posted prices in November and December now we are paying too much. We don't worry about that. We try to balance it out where we do justice to the producers. We would rather be on the high side than the low side because they sure would call it to our attention when we were on the low side.



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MR. SANDLIN: Now, the same rule is followed with respect to the purchase of a barrel of crude from, say, the Dollard field, except that the gathering charge there is from the Dollard field into the Cantuar Station, a distance of 49 miles, at 12 1/2¢ instead of 10¢, so that means the wellhead price for that crude is 2 1/2¢ less than the wellhead price of the Fosterton area proper.

We follow the same pricing policy and the same pattern with respect to Midale crude, except that the reference crudes for Midale are different from Fosterton because there is a difference in the gravity and also the sulphur content, but the formula is still the same.

THE CHAIRMAN: Well, who holds the export permit?

MR. SANDLIN: The export permit is held by Great Northern Oil Purchasing Company.

THE CHAIRMAN: So it is, in effect, the exporter, when it puts that oil in the line?

MR. SANDLIN: Yes, insofar as Canada is concerned. We have maintained the export licence from the inception of the program, about June 1st, 1955.

THE CHAIRMAN: Is the Minneapolis Pipe Line Company subject to any regulation from the State of Minnesota?

MR. SANDLIN: Not in the State of Minnesota and, as a matter of fact -- well, to answer your question I will say that it is not under any regulation in Minnesota.

THE CHAIRMAN: Anywhere?

MR. SANDLIN: It is not subject -- let me



put it this way: there is a serious question as to whether we are subject to regulation anywhere. The Interstate Commerce Commission would not agree with my submission, but we have taken the position, from the inception of our program, that when this oil came to rest in our storage tanks in Clearbrook and after deliveries were made by Interprovincial and then we shipped the oil through our Minnesota Pipe Line system, that it did not constitute an interstate commerce shipment insofar as the law, rules and regulations of the Interstate Commerce Commission are concerned and, therefore, when they called upon us to file the reports which we are currently filing with them, we told them that we did not consider that we were subject to their regulation and therefore we filed them under protest and, instead of protesting every time we file something, we just like for them to have it understood that we would furnish the information, but we did not object to that.

THE CHAIRMAN: But you do not admit jurisdiction?

MR. SANDLIN: We do not admit jurisdiction. However, they tell us that the fact that we have concurred with the Lakehead Pipe Line Company, the Interprovincial Pipe Line Company and South Saskatchewan Pipe Line Company in a joint movement of crude to Pine Bend, St. Paul, unquestionably, in their mind, makes us subject to their rules and, therefore, the movement of this oil is what we call a burden on interstate commerce and, in that regard, they may be correct; but, on the other hand, we have been reluctant to admit that, even though



we do file the tariffs with the Commission.

THE CHAIRMAN: So, in reality, there has been no tariff hearing or anything like that with respect to the charges you apply in Minnesota -- is there any other State involved?

MR. SANDLIN: No, not insofar as Minnesota Pipe Line is concerned.

THE CHAIRMAN: No, that is Lakehead.

MR. SANDLIN: Yes; but we are entirely located within the State of Minnesota insofar as Minnesota Pipe Line is concerned.

THE CHAIRMAN: What about the South Saskatchewan Pipe Line?

MR. SANDLIN: South Saskatchewan Pipe Line, of course, is subject to the jurisdiction of the laws, rules and regulations of the Province of Saskatchewan. In other words, we secured an appropriate permit to build a line initially and then, of course, later, as a result of a hearing, we were granted a permit to build the so-called Dollard extension, though we are subject to the laws of the Province of Saskatchewan.

We have not been officially declared a common carrier, but we are subject to whatever . . .

THE CHAIRMAN: But you do file your tariffs, don't you?

MR. SANDLIN: Well, we do not have ---

THE CHAIRMAN: There was testimony given yesterday by Mr. Brockelbank, the Minister, on that point. My recollection is that he said while there had been no formal application to the Board for the setting of tariffs, nevertheless, with the right there to do so, the informal approach had operated



satisfactorily, in the opinion of the Government, and at two or three times the tariffs had been increased.

MR. SANDLIN: Been decreased.

THE CHAIRMAN: I mean decreased.

MR. SANDLIN: Yes, sir, that is correct.

In other words, we have tried to keep the Saskatchewan Government informed at all times regarding our entire operation, our financial position, our tariff situation.

In other words, we file with them informally, so to speak, on the theory that the best way for a pipeline to operate is to act like a good common carrier, with the hope that we may never be declared one.

MR. BROCKELBANK: That is on the assumption that it is more credit to be good for nothing.

THE CHAIRMAN: Does the Great Northern Oil Purchasing Company file any financial statements in Canada?

MR. SANDLIN: Only with respect to income tax. I believe that is a correct statement.

MR. SEMPLE: That is correct. We file an audited report with our income tax report.

THE CHAIRMAN: What about Woodley Canadian Oil Company Limited?

MR. SANDLIN: Woodley Canadian Oil Company Limited files its income tax with the Dominion Government and, so far as I know -- I mean, I am shooting from the hip here, but I do not know of any other financial statement that we file on behalf of the producer company. We file whatever we have to do in connection with our production and producing operations.



MR. COMMISSIONER LADNER: Are these what we call, under our law, private companies? They are not public companies?

MR. SANDLIN: Woodley Canadian Oil Company is a wholly-owned subsidiary of Woodley Petroleum Company. In the States Woodley Petroleum Company is widely owned. In other words, its stock is listed on the American Stock Exchange.

THE CHAIRMAN: And, no doubt, issues a consolidated statement?

MR. SANDLIN: That's right. It files a consolidated statement.

THE CHAIRMAN: Do the laws of Delaware require the filing of a financial statement with the authorities in Delaware?

MR. SANDLIN: No, we do not have to file any financial statement insofar as Delaware laws are concerned. Of course, we are subject to the rules and regulations of the Securities and Exchange Commission and we file a lot of reports with them and in the Boston Curb and market stock exchange; but under Delaware law there is no requirement that we file a financial statement.

THE CHAIRMAN: And, substantially, the answers you have given us so far as Woodley Canadian and Great Northern Oil Purchasing are concerned would likewise apply to South Saskatchewan Pipe Line?

MR. SANDLIN: Yes; it being a Delaware corporation, it would not be required to file any financial statement in Delaware.

THE CHAIRMAN: Or in Canada, itself?

MR. SANDLIN: Or in Canada, that's right;



although we have, as I explained earlier, filed financial statements ---

THE CHAIRMAN: With your income tax?

MR. SANDLIN: With income tax, and then we have given financial statements to Mr. Brockelbank, as I recall, showing our financial condition, purely because, again, we like him to know how good or how bad we are doing, without his directing some of these things.

THE CHAIRMAN: Well, I think the Commissioners probably feel, if they feel as I do, that your set-up, so to speak, the whole thing, represents a very definite achievement from a pionerring point of view of finding a market for this oil that, at one stage, you could not deal with, and I would be interested to know whether it is profitable, whether all these companies are making money.

MR. SANDLIN: Well, I would say yes, that they are making money. They are not making the money that we anticipated they would make, and I make that statement and I will break it down and apply it to the particular companies.

Insofar as Great Northern Oil Company, our refining company, is concerned, we had a lot of troubles in connection with construction of a plant, a great delay in the completion of it, and that additional cost which we did not anticipate became very burdensome to us before it was over with, so that while we are doing very well now we did have some lean days and it is working out all right now to where we are able to make the payments on our debt and pay our interest.



However, it will be some time before we shall be home free, shall we say, before we have our investments clear and our debts paid.

THE CHAIRMAN: There is a very substantial portion of your financing, we notice, done with commercial banks.

MR. SANDLIN: Yes.

THE CHAIRMAN: Is that a long-term basis? Do you give them bonds or debentures as security?

MR. SANDLIN: No, we did not issue any bonds and we did not issue any debentures.

THE CHAIRMAN: Are they term loans? I do not want to inquire into your affairs too closely.

MR. SANDLIN: It is perfectly all right. It is a fine question.

They were term loans and, actually, the security for these loans represented a deed of trust on the refinery, on the refining facilities, plus the contracts that we have with Socony to sell refined products and with Mobiloil of Canada and Sinclair to sell Canadian crudes. It is a "put and take" basis, you might say, whereby the bank made the loan for a particular amount, at the time, of approximately eight years, and, of course, with the necessity certificate, we will accelerate that some because we have to pay 50 per cent of our net profit above a certain figure, so we will probably pay out a little earlier than eight years, possibly six and a half years.

MR. COMMISSIONER LADNER: Are such bank loans guaranteed by the other companies?

MR. SANDLIN: No, they were not guaranteed. We were not in a position to make a guarantee



but we pay them certain quantities, up to a point. Initially we had to guarantee the completion of the refinery to provide funds if they were needed in excess of the \$19 million, plus the proceeds from the sale of debentures plus the capital we were letting in but, when that was accomplished, the banks released the stockholders from that obligation so we have no continuing obligation in the way of guarantee with respect to the refinery.

Now, that is not exactly true in connection with Minnesota Pipe Line Company, as I read in the submission this morning. The stockholders there have a continuing guarantee over and above Great Northern's obligation to the extent of 3,000 barrels a day throughput at a certain figure.

However, I would say, in answer to your question, that the Great Northern Oil Company is now making the money that we anticipated that we would be able to earn from processing this crude, but before we ever got to the point, got to that point, we had a lot of lean days and had to put up another million and a half dollars of equity capital in addition to the original \$3 million.

THE CHAIRMAN: In order to get the banks to go on?

MR. SANDLIN: No, this was after we had already got the loan. We did not have enough operating capital because of the delay in completing the refinery and, of course, initially we were not getting enough of the Fosterton type crude to meet our contractual commitments to Socony, and that was where the Dollard extension came into play; and if



it had not been for the fact that we were successful in getting this additional type crude made available to the refinery, we would have been in a very serious situation, because we were committed to deliver products at prices where we used the laid down cost of this Fosterton type crude at the refinery as part of the cost of the products and we were forced, for a time, when we were not getting enough Fosterton type crude, to buy enough more expensive crude in order to keep our refinery running and we had to pay a lot of money for that and that left practically no ratio of profit with respect to about 50 per cent of our run. We overcame that problem by securing additional Foster-ton type crude from the Fosterton and other fields, tied in to the Dollard extension.

THE CHAIRMAN: Is the Great Northern Oil Company a western hemisphere company?

MR. SANDLIN: No, it is not a western hemisphere company. Actually, you see, we do not do any business outside of the United States. While we do have a permit here in Saskatchewan, we don't transact business in the way of income earnings.

THE CHAIRMAN: But all the other companies would be?

MR. SANDLIN: Woodley Canadian Oil Company is and South Saskatchewan Pipe Line Company and Great Northern Oil Purchasing Company. I believe we classified it under the west hemisphere ---

THE CHAIRMAN: The Minnesota Pipe Line would not be?

MR. SANDLIN: Minnesota Pipe Line would not be. Now, Minnesota Pipe Line is doing all right



but it is not doing too well. We are making a little money but we do not have any cushion. In the South Saskatchewan Pipe Line Company's situation, of course, it would be improved as a result of the additional volume throughput from the Dollard and other fields and, as a result, we have, since the beginning with the Dollard extension field, reduced the tariff by 4¢ a barrel as a result of the additional throughput, and since that time we have reduced the tariff by another 4¢, so, actually, we have reduced South Saskatchewan's pro rata share of the joint tariff on the movement of Fosterton type crude by 8¢ a barrel from the inception of the program and, of course, that 8¢ went to the wellhead; in other words, the refineries did not get the benefit of that saving but the producers and the Government received the benefit from the increase at the wellhead price.

THE CHAIRMAN: The vendors of the oil being largely Woodley Canadian and Sinclair of Canada and Mobiloil of Canada?

MR. SANDLIN: Yes.

THE CHAIRMAN: They would get the benefit of the 8¢ reduction?

MR. SANDLIN: I was going to say, in other words -- you see, actually, these three companies are only producing now approximately 12,000 -- I am not sure of the figure -- anyhow, only 49 per cent of the purchase of Fosterton type crude oil is supplied by Mobiloil of Canada, Woodley Canadian and Sinclair.

THE CHAIRMAN: Or anyone associated with that group?

MR. SANDLIN: Yes, and 51 per cent of



the oil is purchased from others.

THE CHAIRMAN: So that the reduction in the tariff, while it benefits the group, let us say, likewise benefits the independent producer in the field?

MR. SANDLIN: That is correct. In addition to the reduction in the joint tariff, there was also a reduction of 6 1/2¢ a barrel in the local tariff, covering movement of Fosterton type crude from the Cantuar Station to Moose Jaw and Regina. That reduction was made last summer.

THE CHAIRMAN: Is that not South Saskatchewan?

MR. SANDLIN: That is the South Saskatchewan Pipe Line Company, yes.

MR. COMMISSIONER BRITNELL: Is that 49-51 per cent ratio deliberate or is that how it works out?

MR. SANDLIN: That is the way it is working currently. That has fluctuated. For example ---

MR. BROCKELBANK: Mr. Chairman, if I may:

Mr. Sandlin, you purchase in these fields from all the producers?

MR. SANDLIN: That is correct.

MR. BROCKELBANK: This is just an accident of production?

MR. SANDLIN: That is the way it figures out.

MR. COMMISSIONER LADNER: Your company owns the two main fields, the Fosterton and the Dollard, is that it?

MR. SANDLIN: There are a number of fields. There is a Fosterton field ---

MR. COMMISSIONER LADNER: I was not concerned so much with the number of fields, but your



companies own the oil rights, or are they owned by local people who sell to your purchasing companies? How is that worked out?

MR. SANDLIN: Initially, when the whole program was started, this group of Mobiloil of Canada Limited, Woodley Canadian and then Southern Production, but I will speak of it now as **Sinclair**, made discoveries in these fields on permit acreage held by these companies under the Saskatchewan Government, and which acreage subsequently was converted to lease, so we hold as lessees, from the Saskatchewan Government, certain acreage in the fields, and of course there is other acreage in each field held by other lessees from the Government. Then there is acreage which has been offered for sale, after we made the discoveries, in connection with which we were not the successful bidders.

THE CHAIRMAN: But you have a substantial interest in the oil leases in the fields?

MR. SANDLIN: Yes, And then, of course, there is acreage in the fields, some acreage owned by Hudson's Bay, which is freehold, but most of which is held by all of us as lessees of the Saskatchewan Government.

So, actually, in the inception of the program since we discovered the Fosterton field -- and when I say "we" I am speaking of the group of three companies -- we had no markets and, although we tried to find markets in Moose Jaw and Regina, for example, the refinery then was not able to process crude oil with a high sulphur content, and it also has vanadium in it, and that eats up pipe unless you have special



alloys, and they said, "Please don't embarrass us by demanding that we take it," so we started with a program of finding a home for our oil, for our own oil, but in doing so we have found a home for oil for others, and then we created this crude oil purchasing company in order to buy the crude that we need for our refinery and, at the same time, to buy all the other crude for which we can find a market in order to try to render a service as well as, of course, to make a little money, too; but we just make a penny a barrel, so it is not very excessive as far as that service is concerned.

The Great Northern Oil Purchasing Company has markets for the Midale crude that we have been able to find a market for and we have been constantly working on that and, of course, our Great Northern Oil refinery has been taking quite a bit of that crude from the inception and I think maybe the record shows that Midale production is only about 30 per cent of its investment capacity, but we just have not been able to find markets for any greater quantity than we now have, although we have reason to think that as soon as this period of recession passes in the States and when the oil industry catches up, shall we say, and our demand increases, there will be additional markets in the Great Lakes area for both Fosterton type crude and for Midale.

But, in the very early days, even though this Fosterton crude was of such a nature which we could not find a market for yet, we went ahead to spend these millions and this money became a very precious item to us and, for that reason, we



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have been vitally concerned to maintain those resources which are so essential to pay for these facilities that we have built.

Of course, we are hopeful that in due time and, as there has been gradually, there will be an increase in available Fosterton type crude and I think as soon as we know that it will be available in substantial quantities we can find a new home for more Fosterton type crude for these refineries that are willing to take X per cent.

THE CHAIRMAN: Would you help me on this question of the certificate of necessity. I assume that in order to get that you make an application to the administrative body ---

MR. SANDLIN: You make an application to the Office of Defense Mobilization and they make a determination as to whether the facility is one that would be useful, in the event of a national emergency and for purposes of national defense and, if they so determine, then they issue this certificate certifying that you would be allowed X per cent of the total cost of these facilities as a write-off against earnings or profits.

THE CHAIRMAN: What is X in your case?

MR. SANDLIN: 76 per cent, I believe, was the figure that we wound up with, on the average. They break down your refinery and your different units and they will give you 100 per cent on some items and 50 per cent on others.

THE CHAIRMAN: It averages out over a period of what time?

MR. SANDLIN: A 5-year period.



THE CHAIRMAN: So your refinery actually will be written off approximately 75 per cent, say, by 1960?

MR. SANDLIN: 1961, I believe, about mid-year is when we will have it written off -- or, rather, pretty far down, shall we say. Of course, we have normal depreciation on top of that.

THE CHAIRMAN: Quite.

MR. SANDLIN: I am not an accountant but I think it is a straight line basis; there is normal depreciation in excess of that.

THE CHAIRMAN: As the years go by, is it fair to say that your position, from the point of view of competing with other crude in the area in which you operate, on the basis on which you set prices now, is going to improve?

MR. SANDLIN: Well, I don't know whether it would improve. You mean from the standpoint of profit on a per barrel basis?

THE CHAIRMAN: Yes. You will have your refinery almost fully depreciated.

MR. SANDLIN: Yes, that's right. In other words, we will have to pay a lot of tax to the Government, put it that way.

THE CHAIRMAN: Or pay more to the well-head in Saskatchewan?

MR. SANDLIN: Well . . .

THE CHAIRMAN: You have to keep the Ministers interested.

MR. SANDLIN: I will tell you, frankly, what we like to do in the States. We would prefer, instead of paying all that money to Governments in



taxes, we would like to come back up here and look for some more oil.

THE CHAIRMAN: That was the next suggestion I had.

MR. SANDLIN: In Saskatchewan, so that is the best way for us to find oil, because if you are going to have to pay the taxes to the Government anyway, you might as well look for this oil and, if you find it, then, of course ---

THE CHAIRMAN: Well, it is a great incentive.

MR. SANDLIN: That is one of the great incentives in the industry, of course, so we would probably plow that right back into exploration activities in both Canada or the States, wherever you can look to find it. Oil is not always where you think it is. It is where you find it that is important, so you cannot be too choosy.

In that connection I might say that we have this refinery located in a good marketing area; there are very few refining facilities there. In fact, there are only 17,000 barrels of refining facilities outside of our refinery in the Twin Cities area and, in the general marketing area within a radius of about 125 miles, 293 or 295 barrels a day of products, so the other products, of course, are coming in from the mid-continent area, by these companies or else by companies that are shipping.

We had anticipated by this time extending our refinery so as to process additional Canadian crude, particularly after we had connection with several companies having Canadian crude, to consider such an extension program. We had gone so far as to



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have an appraisal and survey made by Universal Oil Products Company of our refining facilities, so that we do have a plan of extension; but we have to more or less lay it on the table for the time being on account of the general economic conditions in the States and Canada; but we do have hopes, in future, of substantially increasing our capacity at the refinery there.



THE CHAIRMAN: There is another question I would like to ask, if I may. You got a certificate of necessity with respect to the Minnesota Pipe Line. What are its terms?

MR. SANDLIN: Yes, we did; we did have it but we have since determined, since the letter I wrote and read earlier to the Government, we have determined that we would be better off not to use it because it was only 25 per cent of the cost of the line so we did not want to get ourselves bound later down the line so we decided not to use it.

THE CHAIRMAN: Yes, because it would be useful on the other ones.

MR. COMMISSIONER LADNER: What are your chief products in your refinery?

MR. SANDLIN: We are making gasoline, regular and also premium gasoline. Premium is about 25 per cent of our total and regular about 75 per cent. We are making propane and butane and then, of course, they make quite a bit of heating oil. We make No. 1 heating oil and No. 4 and we blend No. 1 and No. 4 and make No. 2. No. 2 is, probably, the most popular heating oil in the area.

MR. COMMISSIONER LADNER: Sulphur?

MR. SANDLIN: We make sulphur, yes, but we have to sulphurize this crude.

MR. LADNER: Have you a ready market for that?

MR. SANDLIN: Yes, we have an excellent market. We are marketing that sulphur as molten sulphur. Whatever we make it varies from about 45 tons to 55 - 60 tons a day and we market that as a molten



sulphur. We make petroleum coke from the bottoms and that is about all we make. We keep it simple.

THE CHAIRMAN: Would you have the figures there that would indicate to the Commission the percentage of profit on your investment in Canada of these companies?

MR. SANDLIN: No - - - .

THE CHAIRMAN: I do not want to ask you the amount of net profit but I do assume that each of your Canadian operations makes a profit and pays income tax.

MR. SANDLIN: I will put it this way: I do not believe we have yet reached the point of paying tax because of the fact of the expenses and everything that we have carry-over and build-up but, of course, we will be subject in due time.

THE CHAIRMAN: That is what I wanted to find out; and you are able to take advantage of depletion allowance and that sort of thing.'

MR. SANDLIN: In the States.

THE CHAIRMAN: Here.

MR. SANDLIN: Well here, put it this way: As I understand the income tax laws in Canada, you can only take advantage of depletion to the extent of 'X' per cent, 30 per cent of whatever that figure is of the net profits. Of course, where you do not have net profits you do not get an advantage under the Canadian Income Tax law of the depletion allowance whereas, because it is figured and computed on your total earnings operation, as distinguished from the States, where you take depletion against income from each lease. So, regardless of what the situation might be on other leases, we get depletion allowance on a lease that is



making money.

THE CHAIRMAN: Great Northern Oil Purchasing Company pays - - ?

MR. SANDLIN: Income tax?

THE CHAIRMAN: Does Great Northern Oil Purchasing Company pay Woodley Canadian Oil Company for the oil at the well head?

MR. SANDLIN: Yes.

THE CHAIRMAN: At that price we broke it down, Woodley Canadian is not able to make a net profit?

MR. SANDLIN: Sure, we are making a profit on our production, sure yes, but what I am saying is, I do not think - - we are talking about paying income tax.

THE CHAIRMAN: What you are saying is you are not making a taxable profit.

MR. SANDLIN: Yes, we are not making a taxable profit. We have an income which is included in our consolidated income in the States.

THE CHAIRMAN: For Canadian purposes?

MR. SANDLIN: I think I am correct; I could be mistaken -- we have not yet - - .

THE CHAIRMAN: Can Mr. Powell help?

MR. SANDLIN: I am talking about Woodley Canadian Oil Company now. We have not paid any income tax to the Canadian Government because of these credits we have accumulated from the time we started our exploration program.

THE CHAIRMAN: As losses carried over.

MR. SANDLIN: Sure, we have a profit on our earnings but I am not in a position to tell you what



that percentage is.

THE CHAIRMAN: That is all right.

MR. SANDLIN: I could ascertain, probably, during the course of my visit here and tell you later what the profits from our Woodley Canadian operations are in 1957; the total profits for Woodley. I have not seen that figure set up.

THE CHAIRMAN: What about South Saskatchewan Pipe Line?

MR. SANDLIN: South Saskatchewan Pipe Line is making a profit and paying income tax. Despite the fact that we have been able to reduce our operations, we still had to pay a substantial tax to the Government. Of course, that is a different situation from a producing company because they do not have all those deductions.

THE CHAIRMAN: I would assume Sinclair Canada and Mobil Oil -- you probably cannot speak for them -- but they would probably be in the same position as Canadian Woodley also.

MR. SANDLIN: I would assume so but it is just a surmise. I do not know what their accounts would show because Sinclair acquired these assets from Southern.

THE CHAIRMAN: Would not Woodley Canadian Oil, when its net profits get translated into the parent company, the parent company would pay very little tax on Woodley Canadian profits.

MR. SANDLIN: That is right.

THE CHAIRMAN: Because of its being Western Hemisphere - - ?

MR. SANDLIN: That is correct. As a matter



of fact, with the way this thing works, we file a consolidated statement - - I would say, I do not think Woodley Petroleum Company has ever paid any income tax since I have been with the company and I went with the company January 1, 1944 and we always keep plowing the earnings right back to the point where we have an offset. In other words, that is a way of creating new wealth for those benefits extended by our Government.

THE CHAIRMAN: I do not want you to think I am prying into your affairs unnecessarily but one of the questions we have is the incentive development we have in comparison between Canadian tax laws and American tax laws in so far as they may provide more of that incentive and so on.

MR. SANDLIN: We would hope, very much, that the Dominion Government would see fit to further liberalize, shall I say, the income tax laws as related to the oil industry so as to increase the incentive both for exploration and acquisition.

THE CHAIRMAN: As yet, you are not hurt.

MR. SANDLIN: No, we are not hurt because we have an accumulation of losses and that sort of thing to carry forward that will take care of us, I think, maybe for the rest of this year and perhaps the next. I am not sure how far that accumulation will carry us but beyond that, of course, we start paying tax to the Dominion Government after taking allowance for the 30 percent net. Now, under the income tax law, as I understand, in Canada, if we wanted to acquire a lot of assets from another company or if we wanted to pay \$5 million for some property out here, there is no way



we can get cost depletion on that \$5 million invested and for that reason - - I think that would be one of the reasons you do not have as much trade in the acquisition of assets from one company to another; you have mergers and consolidations.

THE CHAIRMAN: We do not have a capital gains tax so we do not have to charge up losses.

MR. SANDLIN: It works fine for the person who is selling but not for the person buying.

THE CHAIRMAN: It is a case of "whose ox is being gored".

MR. SANDLIN: If the percentage of depletion were applied against a particular lease of properties that would make a greater inducement to everybody, Canadian individuals, Canadian companies and everybody and would create a greater inducement to take a greater interest.

THE CHAIRMAN: Mr. Patterson, have you any questions you would like to ask Mr. Sandlin?

MR. PATTERSON: There are a number of matters I would like to take up with Mr. Sandlin but it is four-thirty,

THE CHAIRMAN: Mr. Brockelbank, if we do not go on immediately at 10.00 o'clock tomorrow morning, would that inconvenience you?

MR. BROCKELBANK: No, certainly not.

THE CHAIRMAN: Will you be here, Mr. Sandlin?

MR. SANDLIN: Yes, I am going to make myself available.

THE CHAIRMAN: I think we will adjourn the hearing until tomorrow morning at ten o'clock.

---Whereupon the hearing adjourned at 4.30 p.m.
until 10.00 a.m. on Wednesday, April 16, 1958.

The Queen

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

REGINA

SASK:

VOLUME No.:

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Regina,
commencing Monday, April
14, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	--	Chairman
Mr. J.L. Levesque	--	Member
Mr. G.E. Britnell	--	Member
Dr. R.D. Howland	--	Member
Mr. L.J. Ladner, Q.C.	--	Member
Dr. R.M. Hardy	--	Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	--	Secretary to the Commission.
Major N. Lafrance	--	Assistant Secretary to the Commission



APPEARANCES:

Representing Woodley Canadian Oil Company
(cont'd):

Marlin E. Sandlin	- President, Woodley Canadian Oil Company
James A. Smith	- Vice-President, Woodley Canadian Oil Company.
E.L. Semple	- President, Great Northern Oil Purchasing Company.
John S. Black	- President, South Saskatchewan Pipe Line Company
A. Powell	- Accountant, South Saskatchewan Pipe Line.

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EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-16-1	Contract dated January 30, 1958 between Saskatchewan Power Corporation and Steelman Gas Limited	3358

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(ii)

APPEARANCES:

Representing The Coal Operators' Association
of Western Canada and The Western Coal Util-
ization Council:

- Mr. W.C. Whittaker - Managing Director,
Coal Operators' Associa-
tion of Western Canada
and Secretary of the
Coal Utilization Council
- Mr. William Bird - General Manager,
West Canadian Collieries
- Mr. R.D. Livingstone - General Manager,
Lethbridge Collieries

- - - - -

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-16-2	Submission of The Coal Operators' Association of Western Canada and The Western Coal Utilization Council	3359

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Wednesday
April 16, 1958.

---On resuming at 10.00 a.m.

---Mr. Commissioner Levesque was not present.

THE CHAIRMAN: Gentlemen, we will now resume the hearing of the Commission.

Mr. Patterson, I believe you had some questions you wished to ask the witness.

MR. PATTERSON: Thank you, Mr. Chairman.

Mr. Sandlin, first of all, a minor detail: I believe yesterday, when you were tracing the barrel of oil for us, you mentioned in your preliminary remarks that there was a Customs fee; in addition to what you paid, I believe there is Customs brokerage?

MR. SANDLIN: Yes.

MR. PATTERSON: And that is some fraction of a penny. What is that, sir?

MR. SANDLIN: We used the fraction of .0036¢ per barrel and we inadvertently failed to include that in the calculations we mentioned yesterday when we traced the barrel of oil from the field, the wellhead, to the refinery.

There was one other item, too, of discrepancy which we overlooked: when we made payment in March for the February purchases we used a currency discount rate of 2 9/32 per cent instead of 3 per cent as we used yesterday. We checked that in the office this morning.



So, with those minor variations, the calculations we gave you are otherwise correct.

MR. PATTERSON: That does not affect the end figure you gave us?

MR. SANDLIN: The .0036¢ per barrel increases the laid down cost -- in other words, it increases the differential between the contract delivered and the price we actually have paid in order that we may stabilize the price, the posted price in the field.

MR. PATTERSON: Now, would you mind commenting for me on, perhaps, the future in the market area you described. You mentioned yesterday that your pricing policy was based on a reference system to Chicago. Have you made any studies of the future as to whether you would anticipate pipeline extensions to Chicago, or product marketing in a large area, and the effect that might have on the crude requirements from Canadian sources?

MR. SANDLIN: Yes, we have made numerous studies of the expanding markets in the Chicago area as well as in Twin Cities and in the Duluth areas.

At the very inception of this program, in connection with the construction of the Minnesota Pipe Line Company, we built a line of sufficient size, 16 inches in diameter, looking towards the movement of Canadian crude into the Chicago market in due time. Since the construction and since we have been operating the Minnesota pipeline and the Great Northern Oil Company refinery, we have had numerous discussions with different companies having crude oil production in Canada, looking towards increasing the capacity throughput to our refinery; that is, by



constructing new facilities and also looking, ultimately, towards increasing -- I mean expanding the Minnesota pipeline into the Chicago areas whereby part of their crude would be processed by our refinery at St. Paul and additional quantities of crude would be carried on into the Chicago market.

That program, at the moment, is -- well, both programs, that is, of expanding the pipeline into the Chicago market and of increasing the capacity of the Great Northern refinery, have been more or less put on the shelf for the foreseeable future until we are able to work out this matter of recession in the United States and our soft market in the United States on crude; but, as a long-range program, as an 8-year period, as referred to in the Government's brief, we have every reason to think that market will increase in both areas and similarly in the Duluth area.

I may say in that respect that the forecast used by the Government on pages 63 to 65, I believe it is, of their brief, looking towards the growth and demand for Canadian crude in those markets, is reasonable, is a reasonable approach to the problem and is in keeping with -- I am speaking of the U.S. market -- is in keeping with projections which we have made from time to time which we think will ultimately be realistic and will work out.

MR. PATTERSON: Now, sir, I wonder if you could assist us in connection with the topics of regulation, the possibility of a National Energy Board and the powers that that might have. I believe you read the Order in Council and you have had some thinking on those problems.



MR. SANDLIN: Yes, I have. I would be glad to comment on it. I do not know that I am competent to advise on it, but I would be glad to comment on it.

It seems to me that, as a long-range program for Canada, it would be important for the Dominion Government to have a fact-finding board that would continue to have full knowledge of the energy requirements for all of Canada and also the energy demand as an overall policy.

It occurs to me that, as far as the development of the resources of the provinces is concerned, the regulation of that development, that that is something that would be more fitting to be left to the provinces themselves; but, insofar as the movement of those resources beyond the boundaries of the provinces is concerned, it would seem that there should be some Dominion Board or Commission as to the determination of the policies that would be characterized as a national policy, as to how that oil and gas would fit into the national economy, not only from the standpoint of the economy itself but from the standpoint of national security, which would embrace national defence, as well as the economics of Canada.

Then, of course, insofar as the movement by pipeline of oil and gas beyond the boundaries of the provinces, where that movement affects commerce or, as we say in the States, becomes a burden on commerce, then you have also created the Board of Transport Commissioners here, which, I assume, has an adequate delegation of power by Parliament to deal with those problems, in addition to the fact-finding and responsibilities of the Dominion Board and the



functions exercised by the Board of Transport Commissioners and that may be exercised by them; you have the overall responsibility by the Dominion Government of determining export policies, import policies, and it would seem to me that, in connection with this fact-finding and power of determination, it would be fitting for this Board or some agency of the Dominion Government with full possession of those facts and that information, to be able to have flexibility to determine policy in keeping with the overall trade relations with the United States and other nations, in keeping with the production and export of oil and gas from Canada as well as the import of products and crude oil into Canada.

I do not know whether that is a very clear statement but I think that pretty well presents my views on the subject, in a general way.

MR. PATTERSON: Is Canadian crude from any source other than from Saskatchewan going into Pine Bend?

MR. SANDLIN: Well, not into Pine Bend, currently. In the very beginning of our refining operations it was necessary for us to purchase Pembina and mixed blend crude from Imperial Oil, taken out of their stream and their pipeline, which, of course, originated in Alberta, and other crudes were mixed in that stream, and Manitoba and so forth. But then, after Midale crude became available to our refinery, upon the completion of the Westspur pipeline system, we discontinued to purchase Pembina mixed blend stream for our refinery and substituted Midale crude, because we determined that the Midale crude had enough hydrogen in it to enable us to desulphurize



our stream without having to add Pembina mixed blend to it in the St. Paul Park area; that is, the Northwestern Refineries Company continues to purchase Manitoba crude from Imperial and, during the winter season, for example, they purchase as high as approximately 15,000 barrels a day of Manitoba crude.

Prior to that they had purchased, out of the Pembina mixed blend stream, from Imperial; but later it seems that those streams, whereas the Manitoba crude had been commingled with the stream coming in from Alberta, I believe, effective sometime last year, the streams were divided so that there is a Manitoba stream and a Pembina mixed blend stream that goes on past Clearbrook, and they are now taking from the Manitoba stream; but their take has been reduced now that the river is open again to about 5,000 barrels a day of the Manitoba crude and they are taking the crude from the Rocky Mountain area, which they barge up the Mississippi River during the summer season.



MR. PATTERSON: So at the moment Great Northern Oil Purchasing is not buying Manitoba crude.

MR. SANDLIN: No, only Saskatchewan crude. That is the Fosterton type crude and Midale.

MR. PATTERSON: Fine, sir. Thank you very much.

MR. SANDLIN: Mr. Chairman, there was one other matter I would like to clear up in the record. Yesterday you made inquiry as to whether stockholders of these Pipe Line and Refining facilities made guarantees in connection with the construction of these facilities. I testified with respect to Great Northern Oil Company and Minnesota Pipe Line Company but I inadvertently failed to refer to South Saskatchewan Pipe Line Company. The stockholders there did make guarantees to the Chase Manhattan Bank for the full amount of the loan at the time it was negotiated, in that the stockholders agreed to purchase from the Chase Manhattan Bank notes given by South Saskatchewan to the bank for the loans. To that extent its guarantees are continuous.

THE CHAIRMAN: Thank you. Arising out of Mr. Patterson's question, you said that the plans for getting into the Chicago area had been for the moment shelved because of the well excess quantities of crude in the United States at the present time.

MR. SANDLIN: Yes.

THE CHAIRMAN: What quantities were visualized by you when you were thinking in terms of enlarging the refinery and the pipeline?

MR. SANDLIN: We were thinking in terms of increasing the capacity throughput of our refinery



to approximately 60,000 barrels per day in the preliminary plans which we have developed with Universal Oil Products. To do that would double the size of our refinery. So we say 50 to 60,000 in order to be on the conservative side, 50 on the minimum and 60 on the maximum side.

We were contemplating in connection with the program of extending the Minnesota Pipe Line in Chicago we would not want to build less than a 16" line and we have not gone as far in approaching the cost and the economics of that system as we have with the refinery, but certainly we would not think in terms of building that line unless we had some assured throughput into the Chicago market initially of at least 20,000 barrels a day. It may take a little more than that, say 20 to 25,000 barrels a day. That would be the minimum that I think that we would want to consider as initial throughput with the economics in such an extension.

In that connection the Great Northern Railway Company -- we have had numerous discussions anticipating such an extension and if they could help in that. They have a railroad right-of-way that runs into Chicago, the Burlington and Great Northern. That is not a correct statement. The Great Northern Railway Company and Northern Pacific Railway Company own 50-50 of the Burlington Line into Chicago. They contemplate a merger of these two companies, the Great Northern Railway Company and the Northern Pacific, in the reasonably near future, in which event they have made the suggestion that they would be glad to see a pipeline follow the right-of-way into the Chicago



area. They would be glad to work with us in construction of such a pipeline extension if we wanted them to. They might even consider building the lines themselves, if, as, and when the crude oil is available to justify the economics of it. These programs are indefinite, of course, at this time but nevertheless it represents thinking and planning that we have in mind for the Chicago market and for the Twin Cities market.

MR. COMMISSIONER LADNER: That is utilization of Canadian oil.

MR. SANDLIN: Yes, all that would be utilization of Canadian oil. In time there will be, I am sure, a pipeline facility built from the Williston Basin area in the United States into the Twin Cities and the Chicago market. Great Northern Railway Company has been urging that pipeline. Also they have proposed they build such a line to connect with our pipeline in Clearbrook, Minnesota, and carry the oil into the Twin Cities or on into Chicago market.

If that happened it would happen only because of the fact there are producers in the Williston Basin area that would likewise like to have oil in the Twin Cities or the Chicago market for processing and distribution of products on the markets they now have. Whether that will happen and whether this other program will happen will depend on the demand these companies may have for crude which they are not able to bring into those markets from the mid-continent area of the United States. It could be that they would have crude oil shut in in Canada which they need very badly to move. Also the same thing would be true in the Williston Basin area of the



United States. They would even be willing to back up some of the crude in the mid-continent area of the United States and give priority to production which is set in in Canada and the Williston Basin, to make possible this crude to flow into markets.

THE CHAIRMAN: Such development would not be limited to 30,000 barrels, would it?

MR. SANDLIN: No, I was speaking of the extension as far as our refining facility is concerned and I was saying 30,000 barrels. It is entirely possible other refining facilities will be built in the same Twin Cities area. As a matter of fact that has been discussed on different occasions by other companies. Also, North Western Refining Company have on the drawing board substantial increase in refining facilities at St. Paul available in the next two or three years. If that goes through that would give additional capacity over and above any plans we may have for Great Northern Oil Company.

THE CHAIRMAN: What would you think that market might be with that development, 100 or 200,000 barrels?

MR. SANDLIN: I would say, looking at the next eight years I would think a projection of 55 to 65,000 barrels a day, 55 to 65,000 barrels a day in the Twin Cities market and a minimum throughput into the Chicago market would be realistic. If we could extend that program, that is if these same companies who need additional crude oil would take more than the minimum program, why conceivably it could go to 100,000 barrels a day within, say, eight to ten years in the combined markets of the Twin Cities and



Chicago, and allowing a reasonable growth in the Duluth area with an increase in pipeline and industrial demand in those areas.

I think that is a reasonable forecast within that period of time based upon the projected increase in energy demand in the United States and the fact we are not keeping pace with the finding of new resources, comparable to the increase in the demand.

Then I felt while that is happening, and on the assumption it will happen in the Chicago marketing area, there will be additional markets that will open up in the Michigan Pipe and the Lakehead Pipe Line system. I think it would be safe to say within eight to ten years. When you combine the Duluth and the Twin Cities and the Chicago markets and points along the Lakehead Pipe Line system, it is reasonable to assume 100,000 barrels increase in our current refinery demand would be reasonable.

THE CHAIRMAN: Mr. Sandlin, your organization, you classify yourself as independent in the trade.

MR. SANDLIN: Yes, we do.

THE CHAIRMAN: Is your organization a member of the Canadian Petroleum Association?

MR. SANDLIN: Yes, Woodley Canadian Oil Company is a member of both organizations in Saskatchewan and Alberta.

THE CHAIRMAN: Would you like to express your view as to whether or not you feel the independent portion of the oil industry in the United States, I mean by that the non-international integrated companies, are really aware of the plight of the Canadian Oil producer.



MR. SANDLIN: I would say that by and large they are not informed. I base that upon the fact I have had numerous discussions with the leaders of the Independent Petroleum Association of America and the Texas Association and other people. I would say that by and large in most of those trade organizations they know only what is, shall we say, fed to them by the leaders. Those leaders are pressing for certain government policies. They are going to present the case in the most favourable light to get the relief they are seeking. They don't really put on the table the total picture. Therefore these people as a group do not get the total picture. I think perhaps Exhibit A of that situation is more recently we had what we call the Houston Oil Forum in Houston on January 27th. There was the American Petroleum Institute, the Oil Well Drilling Contractors, the Independent Petroleum Association of America, the Texas Association and we had a committee representing all of these groups. There was also the Texas Mid-Continent Oil and Gas Association. It happens that I was drafted as the Chairman of this committee. We had several meetings to plan this whole program and the subjects that would be discussed and imports was one of those subjects. During the course of our meetings on the preparation for this Forum and subsequent to that we discussed a lot of factors which these people had not known at all in relation to the total import picture and since that time we have continued that group as a sort of unofficial committee. I reviewed with them a lot of these matters which I have presented here to the Commission. I must say a



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lot of them were amazed to find certain facts that they were not acquainted with. I think we have uninformed opinion, generally speaking.



MR. COMMISSIONER LADNER: Do you think if they were informed on all the details as you are and eminently agree with, would that influence their business judgment and their course of action so far as their interests were concerned.

MR. SANDLIN: I think some of them -- I think a great many of them -- I rather assume the position, after all, this is my problem here and I let everybody else take care of their own problems. But, on the other hand, I think there are a good many of the leaders of that group who would assume a different attitude. I do not think, in the first place, they would be so ready to urge mandatory control in the United States. I do not believe any of them, the majority of them, would recommend any controls against Canadian crude oil because all of those I have talked to, once they understand the total picture, have all been unanimous in saying, 'Certainly, we will agree with that,' that Canadian oil ought to be able to come in unrestricted.

MR. COMMISSIONER LADNER: Has Canada Trade Commissioners down in Texas?

MR. SANDLIN: I must confess I do not know.

MR. COMMISSIONER LADNER: The Chairman informs me they have.

MR. COMMISSIONER HARDY: Mr. Chairman, may I ask Mr. Sandlin a question: what American Federal controls did you have to hurdle in setting up your scheme here? What approval did you need to import oil from Canada?

MR. SANDLIN: We did not have to secure any approval to import the oil; we simply paid the



tariff of 5 1/2¢ per barrel on crude oil up to 25 gravity; in excess of 25 gravity, 10 1/2¢ per barrel. We did not have to make any application, that is, for a permit to import the oil into the United States.

MR. COMMISSIONER HARDY: Interstate Commerce Commission came in later as you explained.

MR. SANDLIN: In other words, Interstate Commerce Commission, insofar as Minnesota Pipe Line is concerned, came into the picture when we filed a joint tariff in which we concurred with Lakehead Pipe Line, Interprovincial Pipe Line, South Saskatchewan Pipe Line on the movement of Fosterton type crude and then with Interprovincial and Lakehead on the movement of other crudes into St. Paul or Pine Bend.

MR. COMMISSIONER HARDY: The Federal Power Commission has nothing whatever to do with the Board.

MR. SANDLIN: It has no jurisdiction over the movement of crude oil or the importation of crude oil into the United States. They have the authority to do so; that is, with respect to pipe lines and the movement of oil under their jurisdiction which, in the history of the Interstate Commerce Commission, they have never exercised that authority for the primary reason they have never had to. If there has ever been any serious problem brought up by the shipper with respect to the movement of crude under the jurisdiction of Interstate Commerce Commission, they have always worked it out with the management of the pipe line so the question of rate determination



has never been a government problem.

MR. COMMISSIONER HARDY: But they could, as I take it, do the same thing as the Federal Power Commission does in saying, for example, "We do not think Canadian gas should come into a certain area in the American economy because we would not want to place that area at the mercy, completely, of a foreign supply of fuel."?

MR. SANDLIN: No, the Interstate Commerce Commission does not have that power over crude oil that the Federal Power Commission has over gas.

MR. COMMISSIONER HARDY: I understood you to say they could exercise it if they wanted to.

MR. SANDLIN: They have the jurisdiction and power to fix pipe line tariffs but they have never exercised it but that is as far as the power extends but in that connection they do require reports to be filed by all pipe line companies which they consider come under their jurisdiction showing the cost of the pipe lines and the volume of throughputs and depreciation use. It is a rather detailed report on the pipe line operation. If they were ever called upon to exercise their authority of fixing rates then they would have the facts and information in the background

MR. COMMISSIONER HARDY: Would it be fair to conclude, Mr. Sandlin, if in your operation you had been subjected to American Government control as the gas people have been through the F.P.C. that your opinion on the value of a national authority in Canada might be changed a bit?

MR. SANDLIN: In other words, if we had



had to go to a national Board, you mean, to get a license or permit to import our crude? Well, let us put it this way: it certainly would not have been as favourable to us if we had to secure a license to import the crude as it was not to have to secure it. What I was talking about in connection with your National Board here in Canada, when I refer to a fact finding body, I was thinking in terms of a Government Board that would have before it, shall we say, the oil and gas production throughout Canada, the potential production. You keep current with the domestic demand in Canada and determine what relationship the imports have in connection with that demand and your exports. In other words, a matter of determining some sort of a national policy but without interfering with the exploration for and the development of those resources in the individual provinces except insofar as the Board of Transport Commissioners may be concerned with the movement of those resources outside of those provinces or one province to another or from Canada into the United States or for export otherwise. But it seemed to me, and I do not mean to infer that you should set up a quota system that would regulate that or to imply that you set up some tariff walls, shall we say, but some agency of your Government needs to know what the facts are and be in a position to recommend policy or take any action that may become necessary down the line either from the standpoint of your overall economy or from the standpoint of an emergency if you had to act or



move in some direction.

MR. COMMISSIONER HARDY: The interesting thing to me is that with your corporate structure you are able to, with very little interference from outside authorities, get them established on what appears to be an economical basis. You got the crude oil from a good source and you fed the oil into a good market but when we get into the gas business we find, for example, in the Pacific Northwest where that was the original plan, it was blocked by American Federal action.

MR. SANDLIN: That is correct.

MR. COMMISSIONER HARDY: And the final plan that was put through required the pricing to be based on delivery in San Fransico which is the equivalent of saying to you, you cannot take Saskatchewan oil to Minneapolis; you have to take it to Texas or someplace. You could immediately say, of course, that is what you are arguing; there is too much control in the picture. But then, we are faced in Canada with an accomplished fact in American policy and would you not think, also, in self protection that we need, possibly, an extension of the present Federal powers in dealing with the export of produced gas?

MR. SANDLIN: I think that is true. In other words, that is what I had reference to in extending jurisdiction to the export of oil and gas beyond the borders of provinces and beyond the borders of Canada. That some sort of a national agency would have to be charged with that responsibility. It would seem to me, rather than the



provincial governments themselves, because of the fact they have different policies and different programs which would not necessarily fit a national policy. Yes, I think in your own self defence in dealing with the United States your hand would be strengthened if you had such a national commission or agency or board that would be able to deal with the United States government on those policy matters in the same way they are dealing with them on a national basis. Even that, it would seem to me, in due course of time, as between the two Governments there should be some sort of a working agreement whether it be in the form of a treaty or in the form of acceptable agreements between the two countries that would establish a more realistic working arrangement than the working and disposition of those resources. I think you will ultimately come to that but for the immediate future I think you would have to deal as best you can with a central agency.

MR. COMMISSIONER LADNER: Just on that point: was your idea along the lines of the existing International Joint Commission that deals with waterways and hydro electric power which consists of a committee section and a joint section, if you are familiar with that.

MR. SANDLIN: I am not too familiar except in a very general way but I think something along that line, yes, I think is going to be the ultimate solution. Of course, if you had an agreement you would have to have someone to administer it so if you had an agreement you have to have someone from the two countries to administer it. In other words,



if the individual corporations -- if they are just left free to try to get a market here today without any overall policy and it is a sort of hit or miss method under which corporations and individuals are operating, it makes for uncertain national policy rather than a uniform policy and in the States we have suffered from a lack of a uniform policy and as a result trade between Canada and the United States has suffered greatly.

MR. COMMISSIONER LADNER: You know the International Joint Commission work in solving the problems in respect of Niagara Falls and the River and other international rivers and they carry out their work with great success in the solution of many problems as between one nation and another.

MR. SANDLIN: I think our relationship is so close that something of that nature is required. I do not know whether we should have an international organization of fuel energy; I have thought that far so as to make any suggestion or recommendation as to exactly how the economics ought to be carried out but certainly something in that direction is inevitable in the final solution of those problems.

MR. COMMISSIONER HOWLAND: One question, Mr. Commissioner: I think this is not a particularly new thought, is it? there is an atmosphere of treaty making and thinking which has pervaded quite a lot of American and Canadian thinking, if you seriously think about this, does one not have to assess whether there have been developments in the Canadian or American Government which would offer a rather



better prospect for the future than has been offered?

MR. SANDLIN: Well, I think you have a point and I believe I should answer your question, yes. I think it is on balance through the years that our relationship has been remarkably good when you consider the fact we are so closely allied in so many phases of our economy and humanity. I think, more recently, that a very healthy sign is indicated in Canada in that Canada is now moving in the direction of being more firm with the United States on a lot of these trade policies, for example, and I think, probably, in the States that our Government may have been inclined, being quite busy looking after some of our problem countries, more or less ignoring the problems of our friendly neighbour, Canada; so, I think a firm policy on the part of Canada in dealing with these matters with the States is a good thing so that the States will realize they are going to have to give attention to Canada as well as to the Middle East and Venezuela. That would be a healthy movement toward the better relationship and the solving of our mutual problem.

MR. COMMISSIONER BRITNELL: I am not very quick at arithmetic but I have been unable to add up the markets that you suggest may become available in the American middle west to anything close to the size of the Montreal market. Now, perhaps, I have missed out one or two so, perhaps, it might be more satisfactory if I put my problem as a straight question: do you feel that in the immediate



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future, and by the immediate future I mean the next one to ten years, there is a reasonable possibility of developing markets in the American middle west area for Canadian oil anywhere near the size of the alternative Montreal market, admittedly a poor alternative to that market that has a market for somewhere between 200 and 250 thousand barrels a day.



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MR. SANDLIN: No, you have a point. I do not believe that in the course of the next eight to ten years that markets in the Great Lakes area and also in District 5 of the West Coast ---

MR. COMMISSIONER BRITNELL: Yes, I meant to include District 5 in that.

MR. SANDLIN: -- will increase to the size of the Montreal market. As a matter of fact, I am not competent to comment on what may be expected of the growth of the markets on the West Coast for Canadian oil. Certainly I would think there would be a normal growth as demand increases and, with a lot of the companies becoming interested in buying Canadian crude instead of from the Middle East and so on; but even assuming a reasonable increase in the market and assuming our forecast for the Great Lakes area is reasonable for this period of eight to ten years, I would doubt that that increase in the market would be more than 50 per cent of the present Montreal market, considering the entire Montreal market, which, during 1957, according to the statistics that I have, averaged 306,000 barrels a day from all sources of imports in 1957, and that is not considering any of the Canadian oil, of course, that is presently moving into Sarnia and into Clarkson; I am speaking of the market east of that market.

So there will be that limitation on market outlets. I would assume that during that period you are going to have a population increase in Western Canada and an increase in industrial demand for crude oil and petroleum products that would absorb some of that difference and probably a



considerable portion of that difference between, say, 150,000 barrels overall and the 306,000 barrels experienced in 1957.

I feel this, too, that down the line -- and I did not mean to infer from the standpoint of the long-range program in future -- but somewhere down the line, and, of course, it can happen much sooner, but from the standpoint of the economics and justification for building a pipeline, I think in due course of time that would be a pipeline facility that industry would want to build and that the producers would like to see built and the consumers would like to see built.

But, in the expression of my views yesterday I was directing my remarks to the short-range program of if you do it under pressure and not as a normal demand in industry that either the consumer has to subsidize it or the producer or the Government or a combination of those three have to subsidize it, and I think those things best happen when the demand is there, so it does not have to happen with a subsidy on the part of any one of those three groups.

MR. COMMISSIONER BRITNELL: So, on the most optimistic policies for market outlets in the United States during the next decade, we are still left with a fairly sizable problem of disposal of oil in Canada?

MR. SANDLIN: Yes, I think that is true, assuming you would want to produce that oil at the maximum producibility of the particular fields and, of course, naturally, all the producers in Canada would like to produce their oil as rapidly as they can sell it; that is a normal case.



That has been one of the criticisms that has been directed by the independent oil group I was speaking of a while ago towards Canadian crude oil imports, and I was speaking of the people who do not agree that Canada should have a complete exemption. They say while it is true that Canada is practising conservation as far as reservoir energy and pro ration by market demand and ratable takes, still their wells have not been cut back anything like the wells have been cut back in the United States and therefore the producers up there are trying to sell their oil faster than we can sell it here and, as a matter of fact, that criticism was made to me by General Thompson, who was on our Railroad Commission down in Texas and, by discussion with him the other day we were debating this particular issue privately and I told him that Canada should have an outright exemption, that we should not play around about it here and try to avoid the issue of the other oil, and he said, "Well, Marvin, I will agree with you that they have agreed to pro rate it similar to the way Texas has, but, until that happens, I think they should be willing to make the sacrifice."

So even though you have not yet provided facilities to move this oil from the Montreal market you may still have to reduce these fields back to a ratable take basis. In other words, all of us who are producers here may have to adjust ourselves to a lower take per well per day until a substantial market has been created in both the United States and Canada or elsewhere.

THE CHAIRMAN: Would you think, then, sir, that the producers in Canada should take a



lower take per day or put it on rationing and allow oil from the Middle East or Venezuela to come in in order that that producer has to cut back his production in Canada?

MR. SANDLIN: Well, I put it this way: I don't believe the producers should have to cut back because of the fact that these imports are increasing. I think there is some justification, as there is in the United States, from the standpoint of national security and in the health of our industry in looking down the line, when you are not able to produce as much oil as we are now, that a producer would be willing to cut back a reasonable amount in his production in order to allow imports to flow into the United States so that we would not cut ourselves off from markets which some day we may need and have to have.

But there is a saturation point or there is a point beyond which a producer in the United States or beyond which a producer in Canada should not be expected to keep cutting back in order to allow foreign markets, shall we say, foreign oil to flood the United States markets and, therefore, depress not only the United States markets for crude oil but also destroy the incentive for finding oil in the future.

MR. BROCKELBANK: Mr. Chairman, I think probably this would be a good place to remind ourselves in the record that Canadian production is presently cut back. There are a great many places in Canada where they are producing a lot less than could be produced.

MR. COMMISSIONER BRITNELL: That was precisely the point that was bothering me and I was



going to ask Mr. Sandlin how much is reasonable in terms of cutting back, because it is getting to the point where, in some places in Canada, some people think it is a little unreasonable.

MR. SANDLIN: Well, I am sure there is a lot of basis for that thinking and Mr. Brockelbank is quite right. I am not familiar with the total picture but I understand that in Alberta there are more fields cut back than in Saskatchewan, although in Saskatchewan we have not been able to expand the market for Midale crude anything like as much as we would like to have done and hope to do later.

But, as to what is reasonable is a very, very difficult question to answer and a difficult one to determine, I think, by any agency, whether it is Provincial or whether it be an overall Dominion agency.

MR. COMMISSIONER HARDY: Mr. Chairman, on that point of cut-backs, the situation is changing very rapidly; but the information we have is that there are an appreciable number of wells in Alberta now that are cut back to their economic minimum; that is, the minimum that the Conservation Board has set for economic production. It cannot go back any more than that.

MR. SANDLIN: Well, that is true and, of course, the same thing is true down in the United States and that has been the big problem that we have had to deal with in connection with this import policy.

Now, in this situation here you have been fortunate to this extent in Western Canada that, while these imports have been coming in in the Montreal



market, they have not been brought into your Western market to compete with Western oil.

On the contrary, your crude has been flowing into the Great Lakes area in the United States and in Eastern Canadian areas, Clarkson and Sarnia, and at the same time you have had a very rapid rise in growth of production in a relatively short period of time that happened to come at a time when we had a depressed demand situation in the United States for crude oil, so the timing was unfortunate from the standpoint of Western Canada in being able to keep pace with the growth you want to keep and the fact that these fields have been discovered.

MR. COMMISSIONER HARDY: Is not another important factor that at the stage of the development here in Western Canada there has still got to be a lot of risk capital made available to develop petroleum resources?

MR. SANDLIN: That is true.

MR. COMMISSIONER HARDY: We are at a much younger stage in our history than, say, is Texas with relation to our resources.

MR. SANDLIN: Yes.

MR. COMMISSIONER HARDY: Where is the risk capital going to come from, if there is no market for oil?

MR. SANDLIN: Well, I don't want to paint too dark a picture. I think that U.S. capital and U.S. companies will continue to bring or offer to bring the risk capital into Saskatchewan and into Alberta, British Columbia, the Northwest Territories. I think they will continue, as a long-range program,



to keep an active program in the search for new resources of oil and gas in this area.

Now, I would admit it will not probably be as accurate as it would be if they could see down ahead what the demand is going to be but, as a long-range program, these companies have confidence in the fact that we are simply not going to be able to find oil in the United States at anything like the rapid rate that we have in the past and, on the contrary, our demand for energy is going to continue on, so, looking, say, ten years ahead, these markets I am speaking of in the States conceivably could be expanded or extended further into the interior of the United States and, more particularly, a substantial increase in the Chicago market, if we are not able to find oil to keep pace, and you understand that in the States a lot of the production -- and I would say by far the greater part of the production, for example, in Texas, is now coming from what we call marginal wells, wells that are not shut in at all but they produce every day because of the fact that, according to engineering experience, they feel if those wells were shut in water would intrude and they would never be able to produce them. So those wells will not last, by any means, forever, and when those wells go out, those that are already marginal wells, and with the finding rate that we now have being so much smaller than we had previously experienced, those markets could increase substantially.

But I do not think that we can forecast that with as much certainty as we can the normal increase I spoke of a while ago, but it will still



be an inducement for American capital to come in here and buy new reserves as long as they can produce some portion of those reserves.

In other words, I think some of the figures that have been included in the Canadian Petroleum Association brief which would indicate that Canada has probably only discovered maybe approximately 10 per cent of its potential oil and gas reserves are indicative of the future of Canada, against the States, excluding our offshore potential, based on all engineering projections; in other words, we may have discovered as much as 50 per cent of our potential, including the offshore, amounting to some 25 per cent; but it would be very difficult to substantiate those projections.

THE CHAIRMAN: Well, Mr. Sandlin, the Commission is very grateful to you and your colleagues for coming here and giving us so much of your time, not only just for the presentation of your brief, but we also appreciate the comments you have made to the Commission.

MR. SANDLIN: Thank you.

THE CHAIRMAN: Thank you very, very much, you and your colleagues, for your co-operation.

MR. SANDLIN: I appreciate it very much and, with the indulgence of the Commission I have sketched out here a very short closing statement that I could read into the record, if you would like me to do so.

THE CHAIRMAN: Certainly.

MR. SANDLIN: Some of it I have already discussed but I have written it out in longhand here.



Canada, it seems to me, stands upon the threshold of its own Elizabethan Age of exploration and consequently its natural resources. You are up to your neck in potential wealth, but it takes money to develop it.

The United States, in earlier years, in developing its natural resources, turned to London, Paris and Amsterdam to secure funds to import machinery, build roads and so forth. When World War I started, we were a debtor country to the extent of about \$4 billion. Only the convulsions of this struggle so changed the situation that overnight we became a creditor country. But, then, unfortunately, we did not conduct ourselves as a creditor should but, instead, erected a system of high tariffs with unhappy results for ourselves and the world.

At this moment, as I have already stated, many of us are attempting to forestall the efforts of some of us to repeat the error of nearly 30 years ago. We like to tell those who are opposing liberal trade policies with Canada and the extension of our reciprocal trade program that the only true self-contained communities in the world are the cemeteries.

My associates and I are glad to have been permitted to have a chance to participate in the growth of Canada. We have spent large sums exploring and drilling for oil and large sums for pipelines and refining facilities to provide distant markets. These pipelines join our countries already conjoined by so many factors, spiritual, political and material. These underground pipeline facilities help to make us one in the defence of our common



countries against external enemies and they are, therefore, in both symbol and actuality, the mark of the special place that Canada must occupy in the minds and affairs of Americans, while also, if I may say so, they must also, to some extent, give us a special place in the minds and affairs of Canadians.

I do not know what disposition affecting our oil business in the nearby future may be made on either side of the border; but, whatever they may be, let me say this, with respect to Canada: we came into Canada in good faith and we look with serenity upon our future in Canada, secure in the good faith and the sense of justice of Canadians. We will be greatly disappointed if our Government does not maintain the same good faith and sense of justice towards Canada and our business and trade relations.

Thank you, Mr. Chairman and Members of the Commission, for your interest, patience and indulgence. Thank you very much.

THE CHAIRMAN: Thank you very much, Mr. Sandlin.

Mr. Minister, would it suit you if we had a break for ten minutes now and then you come on with the continuation of your brief?

MR. BROCKELBANK: Thank you.

THE CHAIRMAN: Gentlemen, we shall adjourn for ten minutes.

---A short recess.



THE CHAIRMAN: Gentlemen, we will resume the hearing. Mr. Brockelbank, will you carry on with the submission of the Government of Saskatchewan. I understand that you would like to ask Mr. Cass-Beggs one or two questions to bring out some information for the Commission and I think possibly we will commence in that manner if you would do that.

MR. BROCKELBANK: Thank you, Mr. Chairman. Before I commence with those questions I would just like to say that for the information of the Commission we will have prepared a table showing in regards to our oil fields in Saskatchewan the maximum capital production within our MPR Hudson's for a period of time, probably three months to the end of last year, and the actual production from each field. I think that would be useful in this question of cutbacks of production.

Now in regard to the questions I would like to ask I think I have three of them. I propose that I ask one coming out of the discussion by Mr. Cass-Beggs. The members of the Commission or some other party may want to ask further supplementary questions and we could probably deal with one subject at a time and I could go on to the other one.

The first question I wanted to ask could be related to the section on page 74 under the heading of Gas Purchase Agreements, which mentions the price paid by the Saskatchewan Power Corporation to the producers. I think there has been some confusion on this price because it is so easy to quote prices which actually are applicable in different positions. There



is the well head price, there is the gate to the pipeline price, and so on. I would like Mr. Cass-Beggs to explain in some detail the situation in regard to the prices paid to producers for natural gas in Saskatchewan and in Alberta as far as he has the information.

THE CHAIRMAN: All right.

MR. CASS-BEGGS: Mr. Chairman, I would have to go back a little bit over the historical material that was presented in the brief. The Government of Saskatchewan asked the Saskatchewan Power Corporation to offer a price to producers that would form an adequate incentive for the development of gas in the province and an undertaking was made to purchase gas wherever it was found in sufficient quantity to justify its transmission to a suitable load.

Consequently the Corporation was faced with two problems. First of all the price, but inseparable from that the volumes of gas that might be expected and which it could consider purchasing, so that in developing the gas system in the province a very major aspect of it was to develop the maximum market for gas to offer to producers and to be in a position to make this undertaking that we would in fact buy gas wherever it was available.

That, of course, involved developing virtually province-wide grid for the collection and distribution of gas and the problem was approached on what one might call a regional concept. Taking the major area of Saskatchewan as a single unit for the purpose of developing the gas system, that, of course, is in a sense quite usual. It is common in the gas



industry to attempt to carve out a region which includes very substantial population. For example Greater Toronto must have between one and two million population served by one gas system. One could duplicate that in many centres. In Saskatchewan there is, of course, very much smaller population than is served by any of the major gas companies in the east and to find that population it is necessary to go to the whole of the developed section of the province.

The Corporation arrived at the conclusion they could distribute gas very widely within the province and at the same time offer a price which would be attractive to producers and would assure it of adequate supply and correspondingly assure the producers of an adequate market. The price offered started at 9¢ and in 1957 increased to 10¢. For the purpose of discussing the basic price negotiated in our contracts we have before us the figure of 10¢. However, the Corporation approached producers with a view to buying gas on a central point in a gas field with the producers gathering the gas, treating it in so far as that was necessary, and compressing it. We were unable to develop contracts with the producers on that basis. Consequently the pattern had been established in Saskatchewan that we buy the gas at the well head and all our contracts, with the exception of the purchase of residue gas at Steelman, we buy from the individual wells and the Corporation assumes the full responsibility for the gathering, compression, transmission, and where necessary any treatment of the gas. We extract moisture and in certain cases impurities, particularly the hydrocarbon, the highest hydro-



carbon contents that would cause trouble in transmission.

In examining our well head price one must keep in mind the producer performs no function on the gas except delivery essentially as it comes from the ground, perhaps free of slugs of water or oil at the well head. The Corporation assumes the total cost of treatment and of gathering facilities.

Now to compare the Saskatchewan price with those in Alberta we have to keep in mind the opposite is generally the case in industry in Alberta. Most prices that one finds quoted in Alberta are for gas gathered and delivered from a central point in the field and usually compressed to the pipeline pressure. The cost of the gathering facilities, treatment, and so on has been variously estimated from a low of about 3¢ per MCF to 6¢ or 7¢ per MCF.

For example, I believe the Commission had submitted to it a figure by Northwest Utilities in Alberta of a price going up to 6.6 cents as the production gathering cost at 50% load factor. I think it would be usually accepted that 4 1/2 cents would be a fairly typical gathering cost for a typical load factor, shall we say, of 50%. On that basis it means that the Corporation is offering a 14 1/2 cents price effectively for the gas it purchases in Saskatchewan as a price to be compared with the prices usually quoted in Alberta.

Now to compare one or two of those prices, I note that West Coast uses a price of 10¢ in 1963, rising to 12 1/2 cents in 1977. Those are for gas delivered to a central point in the field and therefore



are comparable with the Saskatchewan price of 14 1/2 cents. That is, we in effect are offering 2 cents more than the West Coast proposed to pay in 1977. Those figures are quoted from page 989 of the transcript.

Then you notice Alberta Southern has a purchasing price of 13 1/2 cents in 1961 rising to 16 1/4 cents in 1965. So again the Alberta Southern price in 1961 will still be 1 cent below the effective 14 1/2 cent equivalent price for Saskatchewan.

In 1965 the price for Alberta Southern will rise to 16 1/4 cents. Canadian Montana is another case submitted to the Commission where an 8 cent wellhead price was quoted. The Saskatchewan wellhead price is 10 cents. If we add 4 1/2 cents that represents 12 1/2 cents as compared to the 14 1/2 cents for Saskatchewan.

Trans Canada has also contracts for the purchase of gas delivered to a central point in the fields. It may be interesting to quote from the contract with the Provost Company. This contract was amended up to the end of 1956. I presume these prices are as of 1956 but the price on January 1, 1957, through to December 31, 1957, is 10 1/4 cents per MCF. That is a gathering price including in this case compression and if the Trans Canada Company undertakes compression instead of the producer the contract provides for reduction in price below the 10 1/4 cent figure. The contract provides escalation. It would take until 1976 to reach a price, according to this contract, at which Saskatchewan Power



Corporation is effectively buying gas from Saskatchewan producers. In 1976 Trans Canada would be paying the Provost Company 14 1/2 cents.

I believe there has been some more recent reference for the Commission to the effect Trans Canada has now increased its price to 13 1/4 cents. That may be made available to all producers, I don't know. That is still significantly lower than the Saskatchewan price.

Again I would mention that most of these contracts are more rigorous than the Saskatchewan ones in that they include provision for compression and require gas at a very high specification, a higher specification than we require. Consequently if it is necessary to purify the gas it is our responsibility. Consequently at the present time I would suggest that there is a margin of some 2 cents effectively in favour of the Saskatchewan producers, that is the Saskatchewan Power Corporation is paying probably 2 cents more for gas it purchases to the producers themselves than is currently being paid in the examples I have cited from Alberta.

We have a contract form that provides for renegotiation every three years. The three-year interval is rather a short interval, five years is common in other cases and this particular contract I have been quoting from of Trans Canada runs to 25 years, I believe.

We have provided escalation in one contract, that is the one for the purchase of residue gas in the Steelman Gas operation. Of course, gas there is not comparable with wellhead gas. It is gathered, it is delivered at a central point. On the other hand



its value is less in that it is a proposition of taking the gas as it comes, it cannot be adapted to the varying load conditions. Dry gas is normally available at whatever load factor is required.

Discounting the Steelman case, on account of the fact some peaking facilities or storage facilities have to be developed in order to use it and adding to it the gathering cost it is our opinion that we are paying effectively the same price for Steelman Gas as for the dry well gas that we purchase elsewhere. That is, we consider that the 10 cent price at which we buy gas from Steelman is equivalent to the 14 1/2 cent cost of gas purchased from the individual wells and that the cost of storage or peaking facilities would offset that 4 1/2 cents.

In the Steelman contract we have escalation of 1/4 cent per annum over the 20-year life of the contract, which would raise the price to 15 cents by the end of that contract, which would be 1976 or 1977. I think the attitude of the Corporation would be that the most favoured nations clause that applies in most of our contracts would not necessarily apply as to price in relation to treated residue gas because the kinds of gas are so radically different in their deliverability and so on. However, we would be happy to negotiate with any of our present producers a 20-year contract including some escalation provisions of 1/4 cent per annum on the basis of a 20-year contract. We have not been requested to make that escalation available to any of our producers.

I think, Mr. Chairman, that probably answers the Minister's questions.



THE CHAIRMAN: Thank you.

MR. BROCKELBANK: Mr. Chairman, do you or any of the Commissioners wish to ask any questions on that particular subject?

MR. COMMISSIONER BRITNELL: I wondered whether the 10 cents price which became effective on October 15, 1957, referred to the contracts that had been negotiated before that time as well as new ones coming in the future.

MR. CASS-BEGGS: Yes, it refers effectively to all of them because of the operation of the favoured nation clause. It is specifically incorporated in the contracts, I believe.

MR. COMMISSIONER BRITNELL: I wondered also just what basis of renegotiation of contracts might be under a condition where you have, in the case of Saskatchewan Power Corporation, one buyer as against a number of sellers, or what the economists call a condition of monopsony, just what the basis of renegotiation might be existing there, Mr. Cass-Beggs?

MR. CASS-BEGGS: One major factor in any such negotiation would be the general prevailing level of price in comparable areas of gas with comparable delivery conditions.

MR. COMMISSIONER BRITNELL: In this case Alberta probably.

MR. CASS-BEGGS: Yes. It is an important factor too, I think, that the date at which contracts come up for review is the same in each case. Consequently, while there would be the one purchaser in negotiating on the one side the Companies would also in



effect be negotiating simultaneously so that that tariff monopoly position would be offset by collective negotiation on the part of the Companies.

MR. PATTERSON: Mr. Cass-Beggs, I am sure this was a slip on your part but the end price under the Steelman price is not 15 cents but 14.75 cents.

MR. CASS-BEGGS: Yes, my arithmetic!

MR. PATTERSON: There were one or two items that make some difference I think in this price, as I understand it the Saskatchewan Power Commission accepts gas at a minimum calorific value of 9.25 BTU.

MR. CASS-BEGGS: I think that applies in one contract. I think it is more usually higher.

MR. PATTERSON: The one we had as an example gives that. In the event that it is 9.25 I think your 10 cent price applies to gas at a thousand BTU's comes to 10.81, which in those cases gives an advantage to the position you have been taking. Is the pressure base of your contracts throughout 14.65 rather than 14.4?

MR. CASS-BEGGS: Yes.

MR. PATTERSON: That, of course, has a slight decreasing effect on the figures we have been talking about in comparing to Trans Canada's as a figure for example at 14.4.

MR. CASS-BEGGS: Yes, it is a relatively trivial percentage.

MR. PATTERSON: About 1/10 of a cent or something of that kind.

MR. CASS-BEGGS: Yes.



MR. PATTERSON: Now, in these gathering and treating costs, sir, you mention a 4 1/2¢ differential, are you making any allowance for the recovering and sale of by-products which would tend to reduce that spread?

MR. CASS-BEGGS: They have no gas in which the sale of by-products at the present time looks to be economically feasible. It is true, insofar as we extract a certain amount of liquids and can sell them, offsetting that against operating costs will be worthwhile but any gas that is rich enough for the by-products to be of any value will, presumably, be treated by the producer.

MR. PATTERSON: That is, your contract will change from the wellhead.

MR. CASS-BEGGS: The producer reserves the right to remove any merchantable hydrocarbons other than we pay for.

MR. PATTERSON: So that, in other words, if those merchantable hydrocarbons arise they will still sell gas to you at 10¢ and they are able to introduce those hydrocarbons to the markets themselves.

MR. CASS-BEGGS: Yes. Just to extend that: our problem arises when it is insufficient to make it worthwhile for the producer to remove them but too much for us to handle the transmission factor.

MR. COMMISSIONER HARDY: Mr. Chairman, may I ask this question? The special contracts that were submitted to us yesterday, one of them makes no reference at all to load factor and the



other one has it defined but, as I understand, it is not a factor in the contracts. You mention, in quoting Alberta figures, that the Edmonton Gas Company's figures were based on a 50% load factor.

MR. CASS-BEGGS: I quoted the figure which they gave the Commission for a 50% load factor; they submitted a range of figures. I quoted the 6.6¢ figure which was their 50% load factor because that most nearly matches our case.

MR. COMMISSIONER HARDY: I take it, in your contracts, you are not concerned with the load factor?

MR. CASS BEGGS: We are in our operation

MR. COMMISSIONER HARDY: That is in buying at the wellhead.

MR. CASS BEGGS: The contracts involve certain take-or-pay provisions but not, specifically, load factors.

MR. COMMISSIONER HARDY: Have you any information as to what load factor you do accept this gas on under these contracts?

MR. CASS-BEGGS: Our overall system load factor is probably between 40 and 50% and producers have certain rights that we would not discriminate against one as respecting the load factor against another.

MR. COMMISSIONER HARDY: You are literally buying under your contracts at your average load factor?

MR. CASS-BEGGS: Yes.

MR. COMMISSIONER HARDY: That would only affect the producer, as I understand, but insofar as he may have to put in a few more wells in order not



to reduce at too fast a rate, from the point of view of depletion of his field due to the fact that he has a supply committed at this average load factor such as the 90% load factor of Trans-Canada.

MR. CASS-BEGGS: The gathering costs are increased but that, of course, is our responsibility.

MR. COMMISSIONER HARDY: But your load factor becomes a more important matter when you talk about the price to the consumer?

MR. CASS-BEGGS: Yes.

MR. BROCKELBANK: The load factor is very important, I think, to the corporation. The thing that is important to the producer, is the amount of natural gas he can produce and sell within a year.

MR. COMMISSIONER HARDY: What I was trying to point out, Mr. Chairman, he still has a little problem there but it is not as serious a problem as it is to the gas distributor. He may have to spend more money on extra wells as there is a limit at the rate under which he can take his gas from a single well but the load factor becomes more important a consideration as you start to distribute the gas.

MR. CASS-BEGGS: We are giving a great deal of attention to the problem of load factor because, as you have intimated, it is tremendously important in transmission and cost and we are investigating all the possibilities of storage fields and so forth and as we develop storage there will be an automatic advantage to the producer for which



we have provision in our contracts to adjust the price.

MR. COMMISSIONER HARDY: Since we were discussing this yesterday, Mr. Chairman, I do not think there is too much confusion with the price we had in mind as being paid in Alberta and what you are paying, Mr. Cass-Beggs. There are those corrections Mr. Patterson has mentioned and the question of load factor but in our analysis we are using a somewhat lower figure for cleaning up the gas. I still think, depending on which examples you take, you can make it come out either way. But at the time you set up these contracts, you were making your price competitive, as closely as you could, with what was being paid in Alberta. I think what has confused us, the situation has changed quite rapidly in Alberta in the last few months and I think there is still a little difference in opinion, as I understand the situation, on the price you quoted for the current figures but that is neither here nor there.

MR. CASS-BEGGS: I think there is a factor that should be taken into account: the conditions under which a corporation develops a gathering system. We are assuming the risk of that. We say we expect to get gas over a number of years and we will amortize this system at a certain rate and it is included in our calculations and if the field is not as large as anticipated then we took the burden of having a gathering system put in that becomes redundant or useless with very little salvage value. In the case of Alberta producing costs have risen



and I think that could be given quite some significance in the comparative analysis. The question of who takes the risk of an uneconomic development is very important.

MR. BROCKELBANK: If there are no more questions, Mr. Chairman, I would like to ask Mr. Cass-Beggs to explain to us the system and methods used in devising the price structure charged to the consumers of natural gas in Saskatchewan. I might just add Saskatchewan is a place where, probably, many people think there is not a large potential market for natural gas because of the comparatively small size of our urban communities and the great expanse of areas over which those small communities are scattered and when the Government faced this problem, we wanted to design a system that would bring the benefits of natural gas to as many small communities as possible within the Province to make the benefits of this resource available to as many people in the Province as possible. Perhaps, Mr. Cass Beggs, you could just tell us how you worked that out?

MR. CASS-BEGGS: Mr. Chairman, the position, as The Minister indicates, in Saskatchewan is that we have no city of greater population than 100,000. We have another city of 60,000, 70,000, another 30,000 or so and the rest are all small. If you were to duplicate Saskatchewan conditions in Ontario you would leave out all the main centres in Ontario but you might include Oshawa, Kitchener, North Bay and a couple of other centres of the 15,000 order. You would include, then, a dozen or



two centres of 1,000 population, too small to even remember their names in Ontario, you would include a few hundred villages, two or three hundred, and they would be spaced, roughly, in the distance that I have cited in Ontario; that is, Oshawa to Kitchener and North Bay. The problem that we face with that kind of gas undertaking is to supply a mere skeleton of what exists in Ontario. The population of the Province is still 50% rural. It is true, there is a migration of rural population to the towns and we have taken that into account in estimating our ultimate loads. The area that the system in Saskatchewan must cover is, approximately, one-third of the agricultural land of Canada. There is, obviously, no other gas system in Canada of that extent in terms of territory coverage. There are, therefore, few serving a smaller population.

Putting those factors together was a problem that the corporation faced when asked to design a system for this Province. It had to be designed within the very definite limits. If it were to build up a very large market for gas, it had to be competitive with other forms of fuel in any other competition and to show a distinct advantage in favour of gas. Otherwise, we would not get high saturation and it would not be possible to develop a transmission system on an economic basis.

At the other end of the picture, it had to offer a price to the producer that was an added stimulation. Between those two prices there was a



certain margin out of which it was necessary to operate. This system which I suggest is on an unprecedented scale.

We made certain assumptions and calculated if we served every centre in the Province of a population of 1,000 or more, excluding Meadow Lake and Hudson Bay, which are quite decidedly remote, and if we took in all the villages immediately accessible to the pipe line and calculated the cost of the transmission they would handle that distribution system, operation costs and so on and we discovered we could offer a price that would be distinctly less than coal and oil with a margin in favour of gas that was some 20 to 25% which would enable us to pay a suitable price to producers and on that basis we could break even and that, essentially, is the system on which we are operating.

If we did not establish a consumer's price that was favourable compared with oil or coal then we could not establish the necessary saturation to make the total system an economic proposition. Consequently, that is a very definite price subject to variation of coal and oil prices. Saying that these are relatively stable then the top level of consumer price is also stable and any future margins that can be secured for producers to provide escalation have to come from increased efficiency or economy in the operation.

We developed the outline of the grid and constructed the northern part of it and more recently have constructed the southern part of it and



contemplate, in the immediate future, an extension further east to Yorkton district and another connection between the northern and southern systems. By the time that is done, there will be a fairly complete grid covering the Province and we are feeding into that grid from three points. One can picture it as a letter H on its side and we feed in from the northwest corner, the southwest corner and from the southeast corner and so far we have not discovered any gas in the Prince Albert or Yorkton area but it is likely to appear.

Consequently, it is not possible to calculate the transmission cost of taking gas to any particular community on that grid when the gas is fed from three or more points. We make no attempt to arrive at the individual transmission cost as it applies to any one community. The total costs of operation are pooled and we have established the mean cost for the system and, consequently, we established a single price throughout the system for a centre of given size. Saskatoon, Regina, Prince Albert at present are on the same rates. When Weyburn, and Estevan are supplied next year and Yorkton the year after, they will also have the same standard rates.

We do make a small distinction between the rate supplied to cities and larger towns and, again, a small increase in the rate applying to villages. That is justified on three or four points in relation to these communities. In the first place, a city has a compact distribution system. A smaller town or village, generally



speaking, has residences that are more widely separated and the distribution system, in itself, is more extensive relative to the population and costs more.

Consequently, the consumption in smaller places tends to be smaller than in cities. There is a smaller commercial load and even in individual residences the consumption is smaller in a smaller community.

A further factor is as to our service costs in a smaller community. They tend to be much higher. Travelling distance of servicemen or the cost of having one man resident in a small community is higher than the equivalent city costs.

Those factors justify making a certain difference in the rates from one size of community to another. But the total difference in the rate is only, approximately, 10% between the city and the village community. The spread in the consumer is somewhere around 20% so that the change in the rate hardly matches the difference in consumption. We make no pretense to serve each community at cost nor that we expect that every community served pays for itself.

There is no doubt that there are areas of our system which are relatively subsidized and areas which contribute more than their bare cost. If we did not adopt that policy we would not be able to build up the total load of the magnitude that we anticipate and that, of course, reacts to the benefit of the producers.

In the case of the larger communities the



interest load is a very significant item and the load factors tend to be higher in the larger communities and our general approach is to develop a grid system to the extent that is justified by the service to the larger communities. We then connected the smaller communities that are within reasonable access of the line but in considering whether or not we could run laterally to a village which might be 10 miles from the transmission line, we would not charge that in our economic analysis with the main part of the main transmission line. The point of view would be, the main transmission line was built for the purpose of serving major loads and if we could then extend to a community at some significant distance away from the line without involving a cost that was unreasonable, then we would make that extension. On that basis we would anticipate that we will certainly serve more than 100 small communities, probably 200 small communities, in addition to all the towns of a thousand and up and all cities.

At the present time we have found complete satisfaction with our retail price structure although we have been under pressure to reduce it. There is no adequate basis for requiring a reduction in the retail rate and we have been able to meet the demands of industry at rates which, again, are fully competitive. In our brief we give the relative savings as against alternative fuels for industrial and residential customers. The general range of 20 and 30% was set out in two cases in the brief.

I think I have covered it, Mr. Chairman.



THE CHAIRMAN: Thank you, very much.
Mr. Patterson?

MR. PATTERSON: No, thank you.

MR. COMMISSIONER LADNER: I have just one question: in determining your policy in respect of local rates, community rates versus city, did you take into consideration the desirability of a consumer's uniform rate throughout the Province? That is, the same rate in Regina as it would be in Saskatoon or in someplace on the eastern border or on the western border.

MR. CASS-BEGGS: We have examined that and I would remark that in principle that would be desirable. We have not instituted that. It would not affect the overall economics of the corporation very seriously to do that.

MR. COMMISSIONER LADNER: But you have a differentiated rate right now, to some degree. Perhaps more in one little community than another, depending upon the supply of gas. On what point do you decide on that as against an overall rate for the whole Province?

MR. CASS-BEGGS: We have three rates; a rate for all cities, a rate for all towns and a rate for all villages. Any two villages anywhere in the Province, if they are supplied, are on the same rate and the same with any two towns.

MR. COMMISSIONER LADNER: And on what basis do you differentiate between the price to a consumer in a village and the price to a consumer in a town?



MR. CASS-BEGGS: It is simply a matter of engineering to cover some part of the extra costs. In supplying villages and the smaller towns, we do not feel we cover the whole cost. We must consider the margin with respect to other fuels, actually, or we will not get the village market. Our experience, in fact, in the smaller centres has been a very high saturation. Many small centres in Saskatchewan have almost a 100% saturation. If we raise the price to be strictly commensurate with the cost of supplying it might mean not supplying them at all.



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MR. COMMISSIONER LADNER: Is electricity a considerable source of energy as against gas in Saskatchewan?

MR. CASS-BEGGS: Electricity is not used for space heating at all and, of course, in terms, therefore, of B.T.U. consumption of energy, it does not compare.

MR. COMMISSIONER LADNER: And for cooking?

MR. CASS-BEGGS: It is used for cooking quite widely.

MR. COMMISSIONER LADNER: That is electricity?

MR. CASS-BEGGS: Yes, and, to a small extent, on water heating.

MR. COMMISSIONER LADNER: Are those from thermal plants, the electricity?

MR. CASS-BEGGS: Yes. At the present time there is no hydro power used commercially for distribution to individual consumers in Saskatchewan.

MR. COMMISSIONER LADNER: Thank you.

THE CHAIRMAN: Mr. Minister, I do not know if you have another question.

MR. BROCKELBANK: No, that is all -- oh, yes, one more question:

It was brought out in the brief that the Power Corporation is building the gas transmission line to the Alberta field, Hatton and Many Islands, and I think, Mr. Cass-Beggs, you could probably explain to us best of anyone the reasons for developing our own line and facilities there rather than having that gas go into Trans-Canada and then take it out.

MR. CASS-BEGGS: The discussions with Trans-Canada started in 1953, 1954, and, in the



Fall of 1954 Trans-Canada submitted a schedule of rates which would be available in Saskatchewan and, based on those rates, an analysis was made of the cost of serving, at any rate, the southern portion of the province which would be logically served from the Trans-Canada pipeline, which would consist mainly of the Cities of Swift Current, Moose Jaw and Regina but including a large number of smaller centres, and against that an analysis was made of the cost of bringing gas from the Hatton field in Saskatchewan and the Many Islands, Medicine Hat area, which is an extension of the same field in Alberta.

The costs were determined by our own engineers and by consulting engineers for the gathering, compression, transmission of the Alberta gas to bring into these southern centres. These calculations were made originally in 1954 and the results were compared with the prices then quoted by Trans-Canada, the lowest price for Trans-Canada being 30¢ or slightly over 30¢ at a 50 per cent load factor.

We did not, in fact, anticipate reaching quite 50 per cent, but our calculations were based on that. Our own cost for comparison with that was some 18¢. We increased that by making an arbitrary allowance and considered a possible price of 20¢ for comparison with the Trans-Canada price of 30¢ and we were satisfied that we could, in fact, purchase the gas in Alberta and the Hatton field, gather it, compress it and transmit it for southern loads and deliver it to the town gate for 20¢.

Consequently there was a saving of some 10¢ per MCF over the prices then quoted by Trans-



Canada.

The contemplated contract was for 20 years and, in that 20 years, the total consumption for the southern part of the system would be in the order of a half a trillion cubic feet, giving a saving of \$50 million over the life of the contract in favour of undertaking the proposition ourselves.

It was on that basis that the decision to build the line ourselves and not utilize Trans-Canada was made.

We continued negotiations with Trans-Canada, however, in the following year, and we do now have a contract with that company which could have been, presumably, increased to larger amounts, and the price which presently applies is 26¢, so that comparing our 20¢ with the 26¢ gives us a saving of about \$30 million over the life of the contract. However, that price was not available at the time we made our decision to build the independent line.

However, we still are saving \$30 million by proceeding on our own system as compared with purchasing gas from Trans-Canada.

These potential savings represent three to five times the cost of the capital facilities required although, of course, the cost of these facilities is amortized in my estimate of 20¢. The 20¢ price includes the operation interest and depreciation and the transmission facilities but, by way of illustrating the magnitude of the saving, it is interesting to note that it is three or five times the total investment that we have made in providing this gas ourselves. It also represents a method of



utilizing Saskatchewan gas and a pocket of gas which was fairly inaccessible to use in other ways.

The portion of the field at Hatton has relatively poor deliverability and has no immediate market if we did not purchase that gas, so the procedure we have adopted has, in fact, also provided a market for the Hatton gas.

Our contract prices in Hatton are the same as those already quoted.

I think I should perhaps add that the price of 30¢ as originally quoted by Trans-Canada would just about have ruled out the use of that gas for industrial purposes on a large scale. We have found it has been necessary to quote prices just below 30¢ in order to compete with alternative fuels and to provide a gas resource that will encourage industry to locate in this province. Had the contract been signed with Trans-Canada for gas on the original price basis we would have been in a position to service the industries adequately.

MR. COMMISSIONER LADNER: If the 26¢ rate had been offered in 1954, would that have been acceptable instead of building your own line?

MR. CASS-BEGGS: No, we would still have built our own lines. The potential saving of \$30 million would have been so significant that we would not have accepted the Trans-Canada rate. We would have had to have gas at 20¢ delivered to the major load centres in order to forego our own construction.

MR. COMMISSIONER HARDY: Mr. Chairman, may I ask Mr. Cass-Beggs if that situation is at all



unusual with long distance, large pipelines, if financed and built, and the whole organization is developed but, in the case of Trans-Canada, primarily to deliver gas to Toronto and Montreal? What I do not understand is why you would expect to get any other answer, with the amount of gas you were interested in using for a comparatively small length of transportation line as compared to what Trans-Canada were interested in.

MR. CASS-BEGGS: Well, I think I would put it this way: if I had been operating a transmission line such as Trans-Canada and designed the line correctly for taking gas to Eastern markets, without any reference to Saskatchewan, and a customer in Saskatchewan had come along and said, "Are you interested in selling gas at a certain amount in Saskatchewan," then I would have asked what increase in capacity of our facilities and what cost was required in order to meet that basic load. This is a 30-inch pipe, I think a 34-inch diameter pipe and, without making the calculation, I suspect that an extra 1/2 inch of diameter or one inch at most would have met the Saskatchewan requirements.

Consequently, the extra cost of supplying the Saskatchewan load would be, for the sake of argument, one inch extra of diameter or a 3 per cent increase in the capital investment of the Saskatchewan portion and, costing that out, I am quite certain would have given a price below 20¢.

However if I was not interested in the business, then I would have said, "Well, what is the cost of providing it by an independent pipeline of the right size for the Saskatchewan load," and I



would have settled the price at that. Somewhere in between those two is probably the right figure.

MR. COMMISSIONER HARDY: One other question, Mr. Chairman:

Could not this same basic argument that you are advancing in connection with Trans-Canada be applied internally within the province here to your Saskatchewan Power Corporation plan by which you average out your distribution charges, except for this small differential of 10 and 10 and 10 between the consumer prices as to the three types of community?

MR. CASS-BEGGS: Yes, it could; but we would not then build up the sale of gas on which we depend to make the total system an operating entity. If we took the total cost of supplying each individual village we would probably find that no villages could be supplied. We would build a pipeline to Regina, because there is a good load there, and that would be about the limit. We would supply Regina at cost, but there would be no possibility of taking gas to other centres.

MR. COMMISSIONER HARDY: But you would not permit a local community that was, say, 4 1/2 miles from a gasfield, to go into the gas distribution business, even though they might be able to show a comparable saving to what you are suggesting with Trans-Canada?

MR. CASS-BEGGS: The question has not arisen. I feel that our prices are still more favourable than those at which any local community could undertake it. We have one or two cases where individual customers are supplied by the producing



oil companies locally and certainly we never raise any objection. It is logical to do it that way.

I think we operate in essentially the same manner as any other gas utility that expects to have the exclusive franchise in the area which it serves. We serve the economic region in Saskatchewan with an exclusive franchise.

MR. BROCKELBANK: I think if you allowed some person to pick out a community and serve it, they would not be interested in villages; they would be interested in Regina and Saskatoon and leave the skim milk to somebody else.

MR. COMMISSIONER HARDY: Well, I might perhaps explain, Mr. Chairman, that the Commission has briefs before it raising that problem in another province and I just wanted to get the reaction. I appreciate the information very much. The reason I was asking the question was a little bit irrelevant to our main discussion here.

THE CHAIRMAN: Mr. Minister?

MR. BROCKELBANK: Mr. Chairman, I did want, if this is the end of our presentation, to just close with a few words. It is now half-past twelve but I promise to be very brief and I suppose you would permit that.

THE CHAIRMAN: Yes, sir, certainly.

MR. BROCKELBANK: I do not think we should forget some of the basic things in this whole oil and gas business, that is, the exploration for and discovery of these resources. I think we have all got to admit this is a risky business. They even get dry holes sometimes in Saskatchewan and Alberta



and they run into people like Mossadegh in the Middle East, so there are various risks in this business of exploring for and discovering and developing supplies of oil and gas, I think we should keep that in mind from time to time, because certainly it is in the interests of our country, the interests of our province, that this work of exploration and discovery continue to be carried on.

So markets become a very important factor and I would like to suggest that, with the very heavy element of risk in the first end of the business, when it comes to the question of transportation, where, granted, there is some risk, but comparatively little, that we should expect that transportation will be carried on at as reasonable a cost as possible.

If we are going to develop the business, we have got to have a favourable price to the consumer and a price to the producer that will make for a good incentive.

In regard to the gas markets, the situation is somewhat different. For many years in Western Canada, in Alberta there was no market of any size at all compared to the reserves, markets only in their local communities, and we were in the same position here, having no market when gas was first discovered; so to supply that market, as well as serve our people, we set up this policy which you have heard explained to you this morning guaranteeing markets to any quantity of gas which is economic at I think what would be recognized as competitive prices.

I think, during the hearing, there were at least one or two remarks made in regard to the



fact that the owner of gas reserves or the producer has, in Saskatchewan, a sole market, only the Saskatchewan Power Corporation. One of the important things I think to remember is to ask ourselves the question: how many markets has a producer of gas got available to him in Alberta, and possibly, for most producers, that narrows down there to one market, too, by virtue of the very nature of the business of transmitting and distributing gas. If it could be efficiently carried in barrels, the situation could be different; but that is not the fact.

I would also point out that here in Saskatchewan the Saskatchewan Power Corporation, being the purchaser, is not only subject to the influence of other Departments of Government concerning the best interests of the province; for example, I would certainly take objection to a policy of prices which would kill off the incentive for future development.

Also, in the same way, the Power Corporation, although it is a sole purchaser, is subject also to pretty strong public opinion, even much more subject to public opinion than a privately-owned corporation doing the same job.

I do not think I need to make any further remarks about our gas policy within the province, but, looking at the gas situation as a Canadian, I would think we would want to look at this whole question pretty closely. The tables given at page 81 in our brief showing the comparison between Canadian reserves and United States reserves and the customers per 100 persons in each country, and the consumption per capita in each country, adding to that the



difference in our climate, in the national interest I feel we should be looking very closely at this question of whether or not we should export such a fine premium fuel. That will not help the problem of the producers or the potential producers, but I would like to mention again what has already been mentioned: in the national interest it might be considered that Canada, together with the consumers represented by certain provinces, could very well consider purchase of some of these reserves in the ground. Even if the owners can produce them, they are not going to get paid out in the next 5 years for those reserves, and I think this is an avenue that certainly should be explored.

I appreciated the words of Mr. Sandlin in regard to the relationships between our two countries, and they should be good; but if we do not look after the interests of Canadians, I don't know who will do it, and in the matter of a commodity as important as natural gas and with a climate like ours it becomes, in my opinion, more important than ever that the intervening costs of transportation and handling should be kept down to the minimum so as to give to as many Canadians as possible the best advantage of this fine fuel and, at the same time, to give to the people who risked the kind of rewards for their returns which you must give in a high-risk business.

In closing, Mr. Chairman, I want, on behalf of the Government of Saskatchewan and those of us who have appeared here before you, to express our appreciation for the fact that you are here on this very important subject, personal appreciation



to you and the Members of your Commission and of your staff for the very fine and co-operative method in which you have conducted the hearings; and when you come back to Saskatchewan, and undoubtedly, I hope, you will be coming, on the later round, we will certainly be looking forward to seeing you again on that occasion. Thank you.

THE CHAIRMAN: Thank you very much, Mr. Minister. The Commission deeply appreciates the labour and effort that went into the preparation of this brief and, on behalf of all of us and the staff, I want to thank you and your colleagues and assistants for the able brief that you did present to us and also for your co-operation, kindness, your hospitality in the fact that you put this very excellent chamber at our disposal in which to hold these hearings, which made a great deal of difference.

Thank you very much, sir.

Gentlemen, we shall adjourn, and I think we had better make our re-convening time 2.15 this afternoon and, Mr. Parkinson, I think the Coal Operators Association of Western Canada and the Western Coal Utilization Council are prepared and ready to go on with their brief, is that right?

MR. PARKINSON: That is right, Mr. Chairman; they will be ready.

THE CHAIRMAN: All right, then, until 2.15.

MR. BROWN: Mr. Chairman, I wonder if I could file just the other contract, as requested yesterday, a copy of the contract between the Steelman Gas and the Corporation.

THE CHAIRMAN: Thank you very much, sir.



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---EXHIBIT NO. R-16-1: Contract dated January 30,
1958 between Saskatchewan
Power Corporation and
Steelman Gas Limited.

---Whereupon the hearing adjourned, at 12.45 p.m.
until 2.15 p.m.

- - - - -



---On resuming at 2.15 p.m.

Submission of
THE COAL OPERATORS' ASSOCIATION OF
WESTERN CANADA and THE WESTERN COAL
UTILIZATION COUNCIL

APPEARANCES:

- | | |
|-----------------------|--|
| Mr. W. C. Whittaker | - Managing Director,
Coal Operators Association of Western Canada
and Secretary of the
Coal Utilization Council |
| Mr. William Bird | - General Manager,
West Canadian Collieries |
| Mr. R. D. Livingstone | - General Manager,
Lethbridge Collieries |

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings.

MR. PATTERSON: The next submission to be dealt with is presented by The Coal Operators Association of Western Canada and The Western Coal Utilization Council.

I suggest we commence by marking the submission, which will be Exhibit R-16-2. Mr. Whittaker, I believe is going to read the brief. I would ask him to introduce himself and the gentleman he has with him to the Commission.

MR. WHITTAKER: Mr. Borden and gentlemen. My name is William C. Whittaker. I am the Managing Director of the Coal Operators' Association of Western Canada and Secretary of the Coal Utilization Council. I have with me on my immediate right Mr. William Bird,



General Manager of West Canadian Collieries, who is President of our Association and Mr. R. D. Livingstone, General Manager of Lethbridge Collieries, who is President of the Coal Utilization Council.

THE CHAIRMAN: Thank you, Mr. Whittaker. Mr. Whittaker, we have been adopting a practice, having had an opportunity of reading this brief, of having you read parts and we would interrupt ~~or~~ ask you to skip, but it will all go into the transcript. It is partially a time-saving device but also we were unable to follow that procedure previously because we did not receive the brief until just before the Commission sat. In these instances where we have the briefs and can go over them in advance, providing the submitter has not any objection, that is the way we would like to do it.

MR. WHITTAKER: Fine, thank you.

1. Introduction

This Brief, which deals with the coal industry of Alberta and British Columbia, with the present position and difficulties of the industry, and with the outlook which the industry faces in the years to come, is submitted on behalf of The Coal Operators' Association of Western Canada and The Western Coal Utilization Council. These two organizations represent interests who jointly produce over 90 percent of the tonnages mined in Alberta and British Columbia.

Total coal production, which reached a maximum of 10.5 million tons in 1949, now stands at less than 5 million tons, while employment has fallen from a high of about 11,000 men in 1949 to approximately



4,100 in 1957. The value of total production, which in 1949 amounted to 55 million dollars, is assessed at about 25 million dollars in 1957. Reasons for the deterioration of the industry in the two provinces under consideration are to be found in - -

- (a) the progressive dieselization of the railways, and
- (b) heavy inroads into traditional coal markets by alternative fuels which became available with the discovery of large petroleum and natural gas reservoirs in Alberta.

This competition by alternative fuels has progressed despite the maintenance of relatively stable production costs in coal mining and the extensive mechanization of the industry.

II. Recent History and Present Status of the Industry

Because of the variety of coal types occurring in Alberta and British Columbia (lignite to semi-anthracites, See Tab "O"), and the variety of mining conditions, it is helpful to consider the coal industry of the two provinces as broadly falling into two categories:

- (1) High rank bituminous coals, which occur predominantly in the mountain regions and are mainly produced in underground mines;
- (2) Sub-bituminous coals, which occur in the plains areas and are mined both by strip-ping and underground operations.

Production figures for the Provinces of Alberta and British Columbia over the past eighteen years are shown in the following table:

Table 1

Production of Coal and Dollar Value at Mines
Provinces of Alberta and British Columbia

	Alberta	British Columbia	Total Production	Dollar Value at Mines
1940	6,203,839	1,867,846	8,071,685	\$22,535,209
1941	6,969,962	2,020,844	8,990,806	25,875,143
1942	7,754,053	2,168,541	9,922,594	30,191,232
1943	7,676,726	2,039,402	9,716,128	31,579,406
1944	7,428,708	2,134,231	9,562,939	35,824,443
1945	7,800,151	1,699,768	9,499,919	34,869,236
1946	8,826,311	1,638,424	10,464,735	40,502,811
1947	8,070,430	1,763,899	9,834,329	45,069,360
1948	8,123,255	1,780,334	9,903,589	52,023,702
1949	8,616,855	1,906,963	10,523,818	55,442,713
1950	8,116,220	1,730,445	9,846,665	51,427,259
1951	7,659,329	1,739,412	9,398,741	50,679,760
1952	7,194,757	1,644,250	8,839,007	49,813,082
1953	5,917,474	1,443,006	7,360,480	40,973,065
1954	4,859,049	1,299,510	6,158,559	34,309,871
1955	4,455,279	1,453,881	5,909,160	32,235,299
1956	4,328,787	1,472,519	5,801,306	31,996,868
1957	3,156,546	1,121,430	4,277,976	24,585,455

Source: The Coal Mining Industry, Dominion Bureau of Statistics



The Commission will note that a high point in production was reached in the period 1946 - 1949, and that there has been a continuing and accelerating decrease from 1950 onwards. This downward trend has been particularly pronounced during the past three years.

Employment totals, total manshifts worked and wages earned in the years 1947 to 1957 are summarized in Table 2:

Table 2

Number of Men Employed, Manshifts Worked and Wages Earned, Provinces of Alberta and British Columbia

	<u>No. of Men Employed</u>	<u>Manshifts Worked</u>	<u>Wages Earned</u>
1947	11,042	2,464,931	\$25,004,471
1948	10,992	2,261,205	26,900,117
1949	11,113	2,390,909	28,727,418
1950	10,245	2,171,165	26,297,062
1951	9,402	2,098,987	26,767,807
1952	8,866	1,915,692	26,635,177
1953	7,338	1,439,066	21,477,284
1954	6,155	1,198,547	18,079,487
1955	5,271	1,062,565	16,356,040
1956	4,814	1,034,221	16,099,228
1957	4,136	780,532	12,152,883 (Est.)

Source: The Coal Mining Industry, Dominion Bureau of Statistics

Sales of Railway Locomotive Fuel and the geographical distribution of production over the past seven years (1957 - 10 months), are shown in Table 3, which follows:

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SHIPMENTS from MINES by DESTINATIONS

<u>ALBERTA</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>10 Months 1957</u>
Railroads - Canada	2,443,886	2,065,365	1,625,783	743,743	435,269	385,386	130,039
- U.S.	105	--	--	--	--	--	--
Industrial Consumers	599,909	575,875	457,559	411,427	372,375	382,295	256,825
Domestic Consumers	778,944	612,129	559,891	628,406	678,416	633,014	354,614
Quebec	--	--	--	--	31	120	80
Saskatchewan	1,322,317	1,254,289	1,034,618	995,747	887,666	871,730	518,801
British Columbia	897,338	1,004,671	862,146	897,716	943,327	860,013	533,411
Manitoba	493,800	386,478	271,804	286,360	293,554	305,155	193,587
Ontario	182,631	124,343	73,186	86,398	91,350	75,148	52,798
United States	81,005	69,549	47,119	32,196	32,265	45,652	62,567
Japan	44,317	5,432	--	--	--	--	1,137
 TOTAL	 6,844,252	 6,098,131	 4,932,106	 4,081,993	 3,734,303	 3,558,515	 2,098,859



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SHIPMENTS from MINES by DESTINATIONS (cont'd)

BRITISH COLUMBIA		<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	10 months <u>1957</u>
Railroads -	Canada	331,066	462,632	455,840	236,086	190,945	178,861	65,049
	U.S.	--	--	--	--	--	--	--
Industrial Consumers		401,480	302,721	252,250	228,442	262,056	238,187	153,744
Domestic Consumers		27,053	23,887	19,884	25,518	32,341	29,231	17,422
Alberta		52,051	19,778	10,488	923	569	454	603
Saskatchewan		6,199	4,886	4,051	4,230	4,316	3,801	2,150
Manitoba		220,055	220,829	201,372	189,248	219,608	244,651	185,674
Yukon		801	474	304	606	--	290	202
United States		79,169	61,423	62,873	36,794	116,907	96,802	70,273
Ships Bunkers		14,642	10,712	5,932	3,868	3,139	4,690	4,737
Ontario		36,691	12,897	868	55,582	50,386	63,239	60,014
Alaska		--	--	--	--	--	80	--
TOTAL		1,226,207	1,120,239	1,013,862	781,297	880,267	860,292	567,868

Source: The Coal Mining Industry, Dominion Bureau of Statistics



MR. WHITTAKER: I would like to make a note briefly on the table to say that so far as Alberta is concerned the tonnage in 1957 is 37% of that in 1951. The railway fuel in 1957 is 7% of that in 1951. The Ontario shipments are 35% of that in 1951. Other shipments have been cut in half. In British Columbia the situation is slightly different. The production in 1957 is 60% of that of 1951. Railway fuel in 1957 is 20% of that in 1951. The shipment to British Columbia Industrial Consumers was cut in half. For Alberta and British Columbia together the production in 1957 is about 46 per cent of that of 1951.

MR. PATTERSON: Mr. Whittaker, your Association does not represent strip mining companies.

MR. WHITTAKER: Yes. I might just explain that, the Coal Operators' Association includes companies who mine coal by underground and strip methods but predominantly underground and the Association members all have labour contracts with the UCWA.

MR. PATTERSON: I thought perhaps the reason there was nothing on Saskatchewan in this table was it was mainly strip mining. You have no members of the Association in Saskatchewan.

MR. WHITTAKER: That is right. The Coal Utilization Council embraces all of those members who are members of the Coal Operators' Association and in addition the strip mines of Alberta who do not have contracts with the UCWA. That is one of the differences but I think that is sufficient.

III. Mine Closures

A feature of the coal industry in Alberta and British Columbia has been the large number of



mines, many of which operate on a very small scale and as "wagon mines" serve a purely local trade. For example, in 1947, 191 mines were registered in Alberta alone. However, 88 percent of the total production during that year was derived from only 39 mines. The subsequent decline of the industry has forced large numbers of mine closures, and it is noteworthy that this has extended to many large as well as small mines. Closures of mines with production over 25,000 tons per year since 1947 are indicated below:

Producing	200,000 tons and over	6
"	100,000 to 200,000 tons	7
"	50,000 to 100,000 "	6
"	25,000 to 50,000 "	16
		<u>35</u>

IV. Productivity and Production Costs

The productivity of the Alberta and British Columbia coal industry might conveniently be viewed against the productivity of other coal producing countries. The latest available figures on which such a comparison can be based are as follows:

U.S.A. - Bituminous	10.7 tons per manday	
Anthracite	2.8 " "	
Canada	3.8 " "	
Netherlands	1.5 " "	
Poland	1.46 " "	
Great Britain	1.24 " "	
Germany	1.06 " "	
France	0.66 " "	

Latest Dominion Coal Board figures show that the average output for all mines in Alberta and British Columbia during 1956 was 5.0 tons per manshift as compared with a Canadian average of 3.8 tons.

For 1956 figures on Mine Costs and productivity by Provinces, (See Tab "D". on original brief)

It should also be noted that the Alberta-British Columbia average approximates fairly closely



to mine outputs in the U.S.A. in areas where similar mining conditions exist. However, underground mining conditions in Western Canada are much less favourable than they are in the Eastern United States where almost "factory conditions" obtain because of flat seams, good roofs and pavements, and relatively shallow cover.

The Bituminous coals of Alberta and British Columbia, which for the most part occur in the Mountain areas, have been severely disturbed and distorted by geological thrusts and uplifts; seam inclinations may vary between 10° and 90° ; and mining operations in such seams require heavy timbering. The steep pitch of the mines, the friable nature of the coals, and the poor roof and pavement conditions place several obstacles in the way of complete mechanization. In spite of these obstacles, however, practically all of the larger Alberta and British Columbia mines are extensively mechanized.

The prairie coals of Alberta, which are geologically young, tend to occur in seams with weak roofs and soft pavements and they therefore also require heavy timbering during mining operations. Nevertheless, almost all these coals are mechanically mined and loaded.

High production rates are obtainable in strip mining operations which are contributing increasingly to the total annual production of coal in Alberta and British Columbia, but reserves of coal amenable to this form of extraction are relatively small in comparison to the reserves of coal under thick cover.

Latest average production costs are given



in the Dominion Coal Board Report for 1956-57. (See Tab "D" of original brief). For Alberta and British Columbia underground coal (with an average calorific value of 26 million Btu per ton), production costs amount on the average to \$6.53 per ton, while Alberta strip-mined coal (with an average calorific value of 16.6 million Btu per ton) is produced for an average of \$3.32 per ton. These costs correspond to pithead costs of 25¢ and 20¢ per million Btu respectively. It is instructive to note that the average wellhead price of petroleum produced in Alberta during the first nine months of 1957 was \$2.62 per barrel, i.e., approximately 45¢ per million Btu. An even more apt comparison with fuel oil suggests that fuel oils Nos. 2 and 5 would have to be produced at between \$1.20 and \$1.60 per barrel - corresponding to between 3.4¢ and 4.6¢ per gallon - in order to rival coal on a straight cost basis.

Present field prices for natural gas tend to be somewhat lower than production costs entailed in underground coal operations, but it is of interest that the coal industry is already producing substantial tonnages of stripped coal (destined mainly for power generation) at less than \$2.00. per ton, i.e., at a cost equivalent to natural gas at 12¢ per Mcf.

In the light of these figures, the widely held view that coal has priced itself out of the market would appear to be quite fallacious.

V. Fuel Efficiency and Fuel Cost Comparisons

The concept of efficiency is generally a somewhat vague one and frequently quite meaningless. In fact, efficiency is far less dependent on the type



of fuel burned than on the equipment in which it is burned. Even the most modern appliance becomes inefficient if it is not well designed, well installed and well maintained.

As a general rule, modern coal burning equipment operates with the same efficiency as oil and gas burning equipment -- indeed, may at times be actually more efficient than natural gas because of the high hydrogen content of the latter. For example, in large industrial applications using spreader type stokers or pulverized coal firing, efficiencies of 80% to 85% can be obtained without difficulty and this efficiency may be as much as 5% higher than can be obtained with natural gas firing.

The following table shows Stoker-Boiler Efficiencies using coal firing as compared with fuel oil and natural gas in various applications.

STOKER - BOILER EFFICIENCIES AND FUEL COST
COMPARISON CHARTS

(See page 12 of original brief).

MR. WHITTAKER: I would like to make some explanatory notes re-Stoker-Boiler Efficiency Table. This table, without going into the figures, shows that using small household equipment efficiencies range from 59 to 65 percent in the best modern equipment for all fuels. New modern automatic natural gas equipment might run somewhat higher but not much.

In commercial and small industrial applications efficiencies of 65 to 70 percent could be expected. In water tube boilers of 5,000 steam per hour your figure is 75% to 85% that could be obtained with good



grades of Bituminous coal. Powdered fuel applications show the highest efficiency, 83 to 88 percent.

The next page, the Fuel Comparison Chart it shows coal versus natural gas. Consumers and inland cooking and water heating rates are equivalent to the better grades of coal at \$35 to \$50 per ton -- 13,000 BTU coal to \$47 per ton. Consumers and inland space heating rates are equivalent to 13,000 BTU coal at \$32 to \$35 per ton. The Saskatchewan Power Corporation rates for space heating at 70¢ MCF are equivalent to coal at from \$10 to \$20 per ton depending on the grade used. Calgary space heating rates at 35¢ MCF are equivalent to coal at \$5 to \$10 per ton.

Now the next table is a comparison of coal versus fuel oil. Fuel oil at Trail, British Columbia, at 23.9 coal is equivalent to coal at \$28 to \$37 per ton. Fuel oil at Toronto, Montreal, and London at 18.3 cents is equivalent to 13,000 BTU stoker coal at \$28 a ton.

The next chart is coal versus industrial fuel oil and the next coal versus propane. I would note that propane is a relatively expensive fuel. The delivery price in Calgary was about 17¢ a gallon equivalent to \$30 a ton. It is generally found rather expensive for space heating.

MR. COMMISSIONER HOWLAND: Mr. Whittaker, what is the authority for these charts? Did you prepare these yourself?

MR. WHITTAKER: We prepared these in co-operation with the Research Council of Alberta. These are on a straight equivalence of BTU's without considering fuel efficiencies.



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VI. Transportation Costs: The coal industry's competitive position is rendered somewhat difficult by the higher transportation and handling charges levied against coal as compared with those which apply in the case of petroleum and natural gas. For example, the cost of railway transportation of coal from Drumheller to Winnipeg (a distance of 819 railway miles) is \$5.88 per ton, or 29.4¢ per million Btu. (See Tab "E" in original brief). The cost of moving natural gas over the same distance at a rate of 2¢ per Mcf per 100 miles is 16.4¢ per million Btu, or slightly over one-half that for coal. The difference in transportation costs is even more pronounced when shorter distances are involved. Thus, the cost of railway transportation of coal from Drumheller to Saskatoon (315 miles) is \$3.98 per ton, or 19.9¢ per million Btu, while the cost of moving natural gas over this distance would be between 6¢ and 7¢, or about one-third as much.

The cost of moving petroleum by pipeline is even less than the cost of transporting natural gas. Consequently, furnace and industrial fuel oils move to market at a correspondingly lower cost.

(For railway freight rates on coal shipments to points between Fort William and Vancouver and to typical points in Central and Eastern Ontario, see Tabs "E" and "F" in the original brief).

VII. Transportation Subventions: Subvention assistance to the Canadian coal industry has been in effect in varying degrees for the past 30 years, and has resulted from the geological position of the Canadian coal fields in relation to major



Canadian coal markets. This assistance is in the form of a payment of part of the freight cost by the Federal Government to the railway companies on coal moving from the mines into specific areas principally in Central Canada.

The subvention on Western Coal was designed primarily to make Canadian coal competitive with imported American coal in the Ontario market. Subvention assistance was later extended to meet the competition of American locomotive fuel in Western Ontario, Manitoba and to a limited extent in the province of Saskatchewan. The assistance provided has been of much value to the industry over the years. At the same time it has not resulted in the build-up of any substantial or lasting market in the province of Ontario. Subventions have been particularly effective in maintaining the railway fuel market in recent years, although with the conversion by the railways to diesel power and the movement of natural gas into Ontario by Trans-Canada Pipe Lines, coal's competition is now natural gas as well as imported American coal. As a result, the effectiveness of subventions in their present form has greatly diminished except in the matter of assistance in the movement of export coal to the Pacific Coast and a much smaller tonnage will be moved under assistance than formerly.

For details of Subvention Assistance available and subventions paid on Alberta and southeastern British Columbia coal in the period 1947 to 1956, see Tabs "G" and "H" in the original brief.

VIII. Research: For the past few years, both Federal and Provincial agencies have carried out



valuable programs of coal research and development. On the Federal level, this work has been the responsibility of the Fuels Division of Mines and Technical Surveys, while provincial efforts in this field have centered in the Research Council of Alberta. The Dominion Coal Board has provided the liaison between industry and the research agencies. The scope and results of the researches have been published in the many publications emanating from these agencies.

IX. Competition of Other Fuels: Despite the efforts of the coal industry and of the Federal Government, recent years have witnessed a rapid shrinkage of coal markets due to the phenomenal growth of the Alberta petroleum and natural gas industry and to the progressive dieselization of the railways. Natural gas has replaced a large tonnage of coal as a domestic fuel and in industrial space heating and steam raising, and has also made heavy inroads into the fields of electric power generation. In addition, petroleum products have made incursions into domestic and industrial heating and replaced coal to a considerable extent in coal-fired railway locomotives. This replacement and the extensive concurrent dieselization of railways is reflected in the following tabulation which shows the consumption of western coal in locomotives since 1947:

(see next page for table)



Table 4

Coal Consumption by Railways

1947-48	2,869,600 tons
1948-49	2,891,811
1949-50	3,354,074
1950-51	2,716,547
1951-52	2,575,219
1952-53	2,747,662
1953-54	2,284,703
1954-55	1,369,603
1955-56	983,255
1956-57	803,994
1957-58	200,000 (est.)

Source: Dominion Coal Board

You will notice consumption has decreased from 2,869,600 tons to 200,000 this year or about 7 per cent of what it was formerly.

X. The Outlook for the Western Coal Industry: Despite the current depression of the coal industry in Alberta and British Columbia there are several grounds for optimism on a longer term view. The most significant are:

- (a) the sheer size of the Western coal reserves, i.e., their huge preponderance over probable petroleum and natural gas reserves, and
- (b) the present and future relative costs of coal, petroleum and natural gas.

With respect to coal reserves in Alberta and British Columbia, it is estimated that these two provinces contain some 74% of Canada's total coal reserves. Recoverable coal has been placed at some 23 billion tons, consisting of sub-bituminous coal, bituminous coal and semi-anthracite, and according to my figuring, 23 billion tons would be equivalent to 575 trillion cubic feet.

It will be noted that there are already several areas in which coal is directly competitive



with natural gas. One example lies in the field of electric power generation. Moreover, as time goes on, it is likely that the competitive advantage will shift to coal more rapidly. It also seems highly probable that the price of natural gas will increase substantially when the export of these fuels is fully underway; and it is equally almost certain that coal may become cheaper than at present as a result of further improvements in mining techniques, more efficient utilization, and the development of entirely new uses for coal or coal by-products.

(a) Domestic and Industrial Heating: In the field of domestic heating, it is probable that coal will be unable to do more than maintain its present position. The widespread use of natural gas for home-heating, and the increasing employment of fuel oil for this purpose in areas not serviced by gas, has already cut heavily into the coal market, and if a relatively buoyant economy is maintained, the "convenience" offered by gas and fuel oil will make a return to coal improbable in urban areas at least. On the other hand, considerable progress is being made in the development of automatic, packaged, coal-combustion equipment that minimizes the need for attention and manual operation; and it is equipment of this type that may prevent further encroachment on the domestic market by gas and fuel oil. In small and medium-size industrial and institutional establishments the use of modern coal-fired equipment, coupled with favourable fuel costs, may well result in considerable re-conversions to coal.

There are expectations, moreover, that



price movements favourable to coal will also result in a substantial rebuilding of a coal market in industrial space heating and steam raising. The present use-pattern in the United States, where heavy industry other than steel making is increasingly relying on coal, offers impressive substantiation for this view. (See End-Use Pattern, American Bituminous Coal - Tab "I" in original brief).

(b) Electric Power Generation: The principal market for Western Canadian coal, however, seems to be developing in the field of electric power generation. Most of the low-cost hydro sites close to load centres in Alberta and British Columbia appear to have been already exploited, and future expansion of power-generating installations is consequently expected to be based on coal and to be located at (or close to) producing mines. In this connection the Commission's attention is drawn to the 1956 Annual Report of the Alberta Power Commission, which reads in part as follows:

"Between now and the end of 1961 we expect that 147,000 K.W. of additional hydro capacity will be developed, as well as 368,000 K.W. of fuel burning generating equipment. At the end of this period the relative amounts of hydro and steam capacity will be 34% and 66% respectively. Beyond 1961 other hydro plants will be built, but the trend towards steam will continue with power from hydro becoming relatively less important.

"The increase of 368,000 K.W. in fuel burning power plants will require a great



increase in the amount of fuel used. Until about 1961 much of this increase will be supplied by natural gas with coal still playing a minor role. By that time, however, we expect that some of the plants burning natural gas - Wabamun for instance, may convert to the use of coal or cease to add other gas burning units. With a plant of the size that Wabamun will then be (240,000 K.W.) we believe that it will be more economical to switch over to coal, even if there should be no increase in the cost of gathering and delivering large amounts of natural gas. From 1961 on we expect that nearly all fuel burning power plants will be designed for burning coal."

I might say that the 1957 report is now out and elaborates on that.

The Alberta Government's submission to the Gordon Royal Commission on Canada's Economic Prospects takes much the same view. It is noteworthy that prairie strip coal is already available in large tonnages and at prices at which this coal is economically most attractive to the utility companies. As already noted, several of these coals are already directly competitive with natural gas; and the range of coals that is so competitive will increase as power plants come to be located near coal deposits. While the development of coal-burning power-generating installations will primarily aid mining of sub-bituminous coal, which can be recovered in stripping operations, there are several areas in which bituminous coal may contribute to the power generation



field.

For example, the bituminous coals of the Lethbridge, Cascade and Crowsnest Pass areas of southerwestern Alberta are particularly well located for use in thermal power plants because the hydro resources, except for peaking purposes, have already been largely developed. With thermal plants located at or near the mines, transportation cost of coal would be eliminated and this would result in fuel costs in the order of 20¢ to 25¢ per million Btu or less.

I might mention here the Ontario Hydro costs would run somewhere in the order of 30¢ or 32¢ per million Btu's using imported coal.

Base load plants will be required shortly in this section of Alberta and British Columbia, and we believe that with some financial incentive the establishment of such projects could be moved forward in time to provide in part at least the markets urgently needed for continued operation of the mines in this area.

The Crowsnest Pass coals are also located close to the American border and to the Pacific Northwest United States where a power shortage has existed for some years. Improved transmission techniques may make it possible to move substantial blocks of power into these areas from the above suggested plants which would provide additional markets for coal.

In general it would appear that a better purpose would be served by encouraging the location of new power generating installations at the mines



rather than by the continued payment of subventions in an attempt to enable coal to move over long distances

(c) Metallurgical Coal and Coke: A third major market for coal will probably be created by the growth of metallurgical operations in Alberta and British Columbia. Despite the current substantial cut-backs in steel production in North America, the steel industry is still an expanding one, and its demand for coke is certain to grow. In this connection, it might be pointed out that the reserves of coking coal found in the mountain areas of Alberta and British Columbia are considered the largest west of the Mississippi River. These coals are of good coking quality and have the added advantage of a very low sulphur content. There is, at the present time, a substantial tonnage of coke being manufactured in the Crowsnest Pass, and these operations are likely to expand considerably. An expansion of shipments of metallurgical coal to Utah can also be looked forward to in the foreseeable future; and if the steel industry extends to the San Francisco Bay area, the Crowsnest Pass will be a logical source of coking coals for that market.

Several companies in Alberta and south-eastern British Columbia are presently studying the possibility of making pig iron and steel, and while these plans may not materialize immediately, it is likely that an industry of this kind will become a reality in the not too distant future. Coal, coke and power would then be required in quantity, and this demand would have profoundly beneficial



effects on the coal industry.

It should be noted that the use of steel in Alberta and British Columbia is rapidly growing because of the requirements of the petroleum and natural gas industry, and that existing steel manufacturing works, based on the electric smelting of scrap steel, are expanding their capacity. It seems likely therefore that the supply of scrap at economic prices will soon be inadequate and that more pig iron will be needed in the not too distant future.

(d) Coal Chemicals: Examples of novel markets for coal may be found in the various possibilities of establishing large chemical enterprises on coal or coke by-products. Tars produced in the manufacture of low-temperature chars for thermal power stations would be a typical starting material for such enterprises. It is not proposed to enter into a detailed discussion of this highly complex field in this brief, but the Commission may be interested in the views expressed by the Research Council of Alberta on chemical utilization of coal. In their contribution to "Alberta's Economic Prospects", a submission by the Province of Alberta to the Gordon Commission, it is stated (page 94):

"And finally, there appears to lie ahead a distinct possibility of eventually basing a chemical industry on coal that will supplement rather than compete with the petrochemical industry. The possibility of converting coal into synthetic liquid and gaseous fuels by hydrogenation and gasification -- processes



that have been exhaustively studied in the U.S.A. and in Germany -- is considered remote in Alberta unless new developments in this field are reported. But hydrogenation to produce chemicals rather than gasoline, and/or carbonization with subsequent manufacture of organic chemicals from the carbonization by-products, appear quite capable of exploitation in Alberta. What is particularly attractive about these possibilities is that Alberta's diversity of coal types would permit appropriate selection of different coals for specific manufacturing processes. Moreover, in an integrated industry, hydrogenation residues and the carbonized chars obtained from such operations would offer a cheap and desirable fuel for power-generation. Also potentially possible within Alberta is the use of coking coals for the production of so-called "structural carbons" (such as acid-tank and blast furnace linings, heat exchangers, corrosion-resistant tubes, etc.) by established processes already employed on a fair scale in the U.S.A. and in Britain. The manufacture of chemicals and structural carbons from coal would of course not require very large tonnages of raw coal, but could nevertheless be of tremendous value to Alberta's coal industry.

"The examples just given do not by any means exhaust possibilities. Nor ought they be viewed as all being equally likely to play a part in Alberta's economy in the years ahead. But they illustrate what might be done; and they provide sound reasons for optimism



about the future of coal in the Province. Were developments such as these to be undertaken, an annual coal production of the order of 9 - 10 million tons, and a very substantial contribution by the coal industry to the value of Alberta's manufactured products, may be looked forward to with confidence."

Support for these views can be found in numerous American and European publications. One of these is quoted in full under Tab "J" (in the original brief.) It is a paper presented by Joseph Pursglove, Vice-President, Research and Development, the Pittsburgh Consolidation Coal Co., Pittsburgh, Pa., before the American Coke and Coal Chemicals Institute, White Sulphur Springs, in October 1956. It reflects American thinking in the field of coal chemicals production and indicates the many potentialities of coal as a chemical source material.

I think that is the best article that I know of as to the situation of chemicals from the coal industry in America.

THE CHAIRMAN: It is rather an amazing story, is it not, as to what the organization has done in such a short time.

MR. WHITTAKER: And they, being the largest coal producers in the world, have the resources to do it.

THE CHAIRMAN: Which he admitted.

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(e) Coal for Heavy Industry: As already noted, Western Canada is industrializing at an accelerating pace but so far little heavy industry has located in close proximity to coal mines. Aside from the industries referred to earlier, the only plants which require the use of significant volumes of coal or coke are cement plants and installations concerned with the smelting and refining of non-ferrous metals. Several of these are currently employing natural gas or fuel oil but are certain to return to coal when price shifts will make gaseous and liquid fuels economically unattractive. It is of interest to note that metallurgical coke manufactured in by-product ovens at Michel, B.C., is already being sold to base metal smelters at Trail, B.C.; Kellogg, Idaho; Helena, Montana; and Selby, California. The smelters at Flin Flon, Manitoba and Trail, B.C., also provide a substantial market for bituminous coal used in ore reduction. Here again, transportation costs are factors that limit extension of markets.

(f) Coal Export: A hopeful development during the past year has been the interest shown by the Japanese Steel Federation in Alberta and British Columbia coking coals. A delegation representing three of the largest Japanese steel companies (which together produce some 80% of Japan's total steel output) visited Alberta and British Columbia during November 1957 in order to examine this possible source of supply. Several 1,000-ton shipments of coal for test purposes were made -- since this brief was written, there have been three more similar



test shipments -- and in addition, more than 40,000 tons of low-volatile bituminous coal from the Cascade area have been sent to Japan for gas-making purposes. There is reasonable hope that this business may expand and be of a continuing nature, but much will depend upon assistance given to the coal industry during the early stages in which the market is being built up. It is noted that Japan is presently importing the bulk of its coking coal from the Eastern United States and purchasing lesser quantities also from the Sakhalin Islands, China and Australia. The Japanese market as a whole is therefore a highly competitive one. At the present time, subvention assistance is available in an amount up to \$2.25 per long ton for shipments moving out of the ports of Seattle and Portland.

And it has just been announced, in the last two days, that that subvention assistance has been increased to a maximum of \$4.00 a ton.

Plans are now being made for the erection of a bulk loading terminal at Vancouver, B.C., (which would handle sulphur, potash and salt in addition to coal) and if these plans materialize, the competitive position of several Western Canadian industries would be greatly strengthened. In the particular case of coal shipments, a saving of some \$1.80 per ton could be effected by shipping export coal through Vancouver instead of through American ports.

(g) Supporting Opinions: The general outlook for coal which this brief has attempted to indicate is contained in several authoritative surveys and



publications emanating from American and Canadian sources.

THE CHAIRMAN; Excuse me, Mr. Whittaker. When you mention the subvention assistance which has just been increased from \$2.25 to \$4.00 a ton, does that apply to shipments from Vancouver or only from Seattle and Portland?

MR. WHITTAKER: Only from Seattle and Portland. There are no facilities on the Canadian side for shipment of big bulk cargos.

THE CHAIRMAN: As yet?

MR. WHITTAKER: As yet. There have been two companies attempting to promote facilities of that kind. I understand that one of them has a very good possibility of completing their financing fairly shortly, but that is where it stands at the present time.

THE CHAIRMAN: Thank you.

MR. WHITTAKER: The Commission's attention is, in particular, drawn to the following extracts from official documents. Coupled with the more specific points established earlier in this brief, they provide a solid basis for the contention that the coal industry will play a vital role in the Canadian economy and that government support in the intervening period of reconstruction is of supreme national interest.

- (1) RESOURCES FOR FREEDOM, Volume III
THE OUTLOOK FOR ENERGY SOURCES

A Report to the President by The President's Materials
Policy Commission, June 1952
Pages 28 and 29.

COAL - The General Outlook

This Nation's abundant reserves of coal



make coal a major long-range source of fuel and raw materials for a wide variety of industries. Sooner or later several major United States industries will have to sink their tap roots deeply into our coal reserves, as did the railroads earlier. Steel has long been rooted to coal and will need increasing amounts. The electric power industry too has been a major customer but now shows signs of becoming a far larger one and a major collaborator toward putting coal more abundantly into use in a variety of ways. Likewise the fast-growing chemicals industry, long tied indirectly to coal through the route of coke and the steel industry, holds promise of becoming a much greater user along with the oil industry, which when need and technology are ripe, can turn to coal conversion to secure an important portion of the nation's liquid fuel supply. Nor is it inconceivable that the natural gas industry may some day turn heavily to coal as a source of product to fill its pipelines.

These great coal-using industries, present and potential, have the financial and technical abilities to provide major leadership, along with Government and progressive members of the coal industry itself, toward deriving abundantly greater benefits for the Nation, and for other free nations as well, from our rich coal resources. The jobs to be done are evident. They will require intensive technological effort and large capital investment. The job is almost certain to get done someday as the need increases; the big issue is whether it will get along rapidly enough to keep the coal industry



from going through another interim period of depression at great cost to the Nation. The challenge to avert such a misfortune rests largely with the several industries concerned.

(2) SUBMISSION ON ALBERTA'S ECONOMIC PROSPECTS
Government of the Province of Alberta, to the
Gordon Economic Commission -- Page 92

Despite the seriousness of the situation that currently faces the Alberta coal industry, there are several reasons for anticipating a definite reversal of present trends in the years ahead. In the immediate future, a significant improvement is perhaps only likely as a result of deliberate Government policy. The competitive position of coal in relation to other fuels would, for example, be greatly strengthened if a national energy policy were to be formulated and implemented, or if Government aid were to be extended to the industry in order to maintain it against the event of a national or international emergency. It is of some importance to remember that coal is, beyond doubt, the most stable energy resource in such an emergency, and that coal supplies are less liable to disruption by enemy action than those of other fuels.

Without Government intervention, present problems are likely to be aggravated for some time. With the extension of pipelines for petroleum and natural gas transport to markets outside Alberta, coal will in all probability be displaced from parts of its present British Columbia and Saskatchewan markets; and coal sales to such domestic consumers as remain in Alberta are likely to be further curtailed. However, on a



longer term view there remains the unquestionable fact that coal represents not only Alberta's largest and potentially cheapest energy resource, but that it is also the fuel most likely to profit from technological advances and improvements in mining and utilization techniques. Even at present, the price differential between coal, petroleum and natural gas is extremely small. Were the price of petroleum and gas to rise as a consequence of the development of more remunerative export markets, or that of coal to fall somewhat as a result of reduced mining and handling costs, a pronounced upsurge in the demand for coal in Alberta is inescapable.

(3) DOMINION COAL BOARD ANNUAL REPORT, 1953-54, Page 18

The Board, from its inception, has worked from the premise that the Canadian coal industry is vital to the economy of the nation. The decline in the industry during the past few years has not affected this opinion but, on the contrary, has strengthened their conviction of the necessity for the industry's preservation. Coal still remains the chief basis of the economy of the main industrial countries of the world.

(4) DOMINION COAL BOARD ANNUAL REPORT, 1956-57, Page 9

New markets have been developing, notably in the field of the generation of power from coal, but these have not yet reached a stage where they are being reflected in compensation for losses in other directions.

The Board, however, is convinced that within the near future the new and extended outlets for coal will begin to replace the tonnages lost due to diesellization of the railways and to the inroads of oil



and natural gas on the house heating market. This belief is substantiated by the experience of other great industrial nations of the world where coal requirements are increasingly exceeding supply. The Board is firmly of the opinion that despite the competition from other sources of energy, coal will, within the next decade, be called upon to play a major role in the industrial expansion of Canada. However, the extent to which the Canadian coal mining industry will be able to perform this role will be dependent on the extent of survival of the essential facilities and staff during the interim period. The Board have, therefore, in their advisory capacity to Government, held the position that it is vital in the national interest that at least a sound nucleus of the industry be maintained.

XI. RECOMMENDATIONS: In the light of the foregoing, The Coal Operators' Association of Western Canada and The Western Coal Utilization Council beg to submit, for consideration of the Commission, the following recommendations:

(a) Energy Authority: It is recommended that an Energy Authority be established, without undue delay, by the Government of Canada; that it be technical in composition; that its functions be both advisory and regulatory; and that it consider all sources of energy not as separate entities but as related parts of an essential whole.

And, coupled with that recommendation, it is suggested to the Commission that the existing Dominion Coal Board because of its extensive



experience in the field of solid fuel production and consumption be made an integral but distinct branch of the Energy Authority.

As supporting data covering the need for the establishment of an Energy Authority in Canada, the Commission's attention is directed to a statement taken from the Foreword and Acknowledgment of Volume III, Resources for Freedom, The President's Materials Policy Commission, 1952, which reads as follows:

'In publishing separately the commodity studies that deal with the major sources of energy for the United States and the free world, the Commission seeks to emphasize the strong interrelationships among energy sources. Equally important, it wishes to stress the basic importance of ample, low-cost energy, along with technology, as the foundation on which industrial growth is built, and a prime essential in supporting national security. "The studies presented here -- on oil, gas, coal, and electric energy -- were prepared to assist the Commission's analysis of this important field. Recommendations are not made here; Volume I of this Report gives the Commission's findings and views, and lays special emphasis upon the key point of the energy problem: the fact that all sources of energy must be considered not as separate entities but as the related parts of an



essential whole."

(b) Pricing Policies - Competitive Fuels: It is recommended that this Commission investigate the pricing policies of the various competing fuels. The history of the natural gas industry in the United States has been that the great bulk of the gas is sold during the build-up period for industrial purposes on firm and interruptible bases at such prices as are necessary to capture the business from competing fuels -- usually with little or no contribution to overhead in spite of the fact that a large proportion of the line capacity is used for all but one or two days per year, or even with no interruption during the year. In this way the industrial consumer enjoys, to all intents and purposes, firm services at interruptible prices. The rate schedules issued during the past year by the pipeline companies indicate that this same policy is to be followed in Canada.

It is contended that all natural gas, including firm industrial, should be sold at prices which cover the full cost of providing service. Apart from the advantages of fair competition, it is felt that it is inherently wrong that householders be required to pay high demand charges to subsidize the sale of gas at less-than-cost prices to industrial consumers, with such gas being withdrawn later from the market or sold at greatly increased prices when the load has been built up. Meanwhile, competing fuels have been driven out of business. It also does not seem right or proper, or in the long-range public interest, that one industry should be



allowed to completely disrupt and drive existing industry out of business for the purpose of maximizing profits and to obtain a short-term advantage.

(c) Conservation of Resources: It is recommended that there should be legislative provisions which would require an administrative agency to exercise sound principles of conservation in the best long term interests of the nation.

Many gas producers and pipeline companies contend that conservation is simply a device to impose end-use limitations and seek to discredit it for this reason. Nevertheless the fact remains that the supply of natural gas, however large, is by no means unlimited and is small by comparison with the reserves of coal.

Moreover, natural gas is a premium fuel which can be transported economically for long distances by pipelines. It is also a raw material for petrochemical processes and by reason of its special characteristics it should be used primarily for purposes for which it is especially suited.

May we again emphasize the thought expressed by the President's Materials Policy Commission that --

"The key point in the energy problem (lies) in the fact that all sources of energy must be considered not as separate entities but as related parts of an essential whole."

(d) Thermal Power: It is recommended, because of the basic importance of electric power to the economic development of Western Canada, that the Government of Canada provide incentives by way of



financial assistance which would help to realize current planning at an earlier date than presently envisaged. The Commission's attention is directed to the considered opinions of competent authorities that --

- (a) coal, because of price, will be the fuel used in future thermal power developments in Western Canada;
- (b) thermal power plants should be situated close to reserves of cheaply-mined coal, and
- (c) natural gas, because it is a premium fuel and because it can be transported long distances at low cost, should be reserved for markets where convenience, cleanliness and transportation are prime considerations.

(e) Research: It is recommended that both Dominion and Provincial Governments give every encouragement and support to enlarged and expanded programs of research aimed at developing new and improved uses for Canada's natural resources, especially the use of fossil fuels in these developments.

(f) Maintenance of a Nucleus of the Coal Industry: It is recommended that this Commission give careful consideration both to a short term and a long term policy respecting the coal industry of Western Canada and especially to the steps that should be taken at this time to preserve a sufficient nucleus of the industry so that the necessary technical and operating experience and facilities are available and



that the industry could be expanded on short notice, as in the case of a national emergency.

It is contended if western Canada is to realize its hopes of major industrial development and a well-rounded economy, rather than be content with exporting its raw materials, substantial utilization of its coal resources will be required. Further, it should be noted that coal, coke and power have afforded the industrial basis of all major industrialized countries in the past, and that this basis is not likely to be significantly changed in the foreseeable future. There are indications that metallurgical industries may be developed in Western Canada shortly, and that these, like similar industries elsewhere, will rely heavily on coal, coke and power.

It is true that coal reserves will not deteriorate if left in the ground, but it is equally true that the physical and human resources necessary to make these resources available for use will pass out of the picture unless appropriate steps are taken now to see that this does not occur.

Respectfully submitted.

THE CHAIRMAN: Thank you very much, Mr. Whittaker. Now, if you would turn to page 31 for a moment, your recommendation (f), specifically what would you have in mind to suggest by way of assistance to the Commission on that? Some of the various things that are contained in the brief, I suppose?



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MR. WHITTAKER: Well, I think perhaps the most immediate assistance which could be given to the industry would be something which would encourage the expansion of thermo-power. To bring this about we would suggest that the Commission recommend the Government appoint some competent authority, by that I don't mean a Royal Commission. I do mean some competent person or persons competent in the thermo-power industry who might see how far that thought might be carried out. Certainly I don't think it is going to occur in the immediate future unless somebody takes the initiative.

THE CHAIRMAN: Won't the demand for electricity be the initiative, or supply the stimulus to that? Can we do it ahead of the time when it is justified?

MR. WHITTAKER: It will in this respect that right now I am sure there are going to be extensions to the thermo-power in Alberta and Saskatchewan. What is concerning me is this: They are going to put in, let us say, strip coal, sub-Bituminous strip coal, which is not going to assist the industry which is presently in existence and it is the Bituminous coal that need some assistance at the moment. The present cost of Bituminous coal is higher than, we will say, the price of gas at the present time. I think as time goes on, I think that situation will change, but some of the people who are in business cannot wait five or ten years to have it changed.

THE CHAIRMAN: What kind of coal does the Calgary Power Company use?

MR. WHITTAKER: There camp is situated right on a sub-Bituminous strip mine.



THE CHAIRMAN: That is sub-Bituminous.

MR. WHITTAKER: Yes.

THE CHAIRMAN: They are competitive with gas, are they not, and they are using coal.

MR. WHITTAKER: They are burning gas at the present time which costs about 10 1/2 cents a thousand. The price of coal is very close to the price of gas. I think the decision that influenced them burning gas at the initial stage was they did not have to make the additional investment to put in coal and ash handling equipment. That was the thing that turned the plans. The minute they have to make that investment coal becomes cheaper than gas. They have now reached the point where as soon as they understand there is not going to be gas available in that area the coal will then be cheaper.

Now there will also be needed some expansion to thermo power in the southern part of the province. The southern part is all Hydro with the exception of a relatively small thermo plant at Medicine Hat in the southeastern corner. In the southern part of the Province there is only one thermo-plant at Medicine Hat. It is 30 megowatts. The rest of the power is all developed as Hydro on the pole. That has now reached the point where it is pretty much of a peaking proposition and the time is soon going to be realized where they must have a thermo-plant for base load down in the southern part of the Province. It is questionable whether there is enough strip coal properly located with sufficient cooling water available and so on to put a plant in just where they would like to have it.



We would like to see a plant of that kind located in the southwest part of the Province, either the Crow's Nest Pass area or Cranmer area where there is water where the coal is mostly of the Bituminous kind and perhaps might be mined underground and would be a little more expensive there.

At the same time those are the mines which require some assistance and if they don't find some markets they are not going to be able to continue to go on. Later on those lines are going to be needed and the kind of coal they produce will be needed and if they pass out of the picture - - an underground mine once closed down is closed for good. The investment surrounding that mine is lost. The people who live in those communities lose their homes employment and life savings and when the time comes they are not available as a skilled labour pool. Those are some of the things involved, and while there is nothing against strip mines, after all some of our members are strip miners, they have a right to a place in the sun the same as everybody else, at the same time a new operation started up is not going to help those that are now in existence. Furthermore, we feel that if these underground mines can survive in the next three or four or five years we think some of the other things, such as the metallurgical markets, the export markets, and so on will materialize and they will then be able to stand on their own feet.

THE CHAIRMAN: I certainly am not unsympathetic with the situation the coal industry finds itself in. If one pursues your thought a bit further



you say in five or ten years from now on your estimate and thinking coal is going to be of great value to the country. You will put the plant there and force them in fact to burn higher cost fuel, force them into much greater capital expenditures for a longer transmission line. You are really asking the consumer of electricity to subsidize the continuance in operation of the mine. Is that an unfair statement?

MR. WHITTAKER: Perhaps in a modest way, Mr. Borden. We don't live entirely in a free economy and for instance, rightly or wrongly, a lot of people in the West feel they subsidize some of the people living in the East.

THE CHAIRMAN: I am not saying I am out of sympathy. I am trying to see where it goes.

MR. WHITTAKER: What we suggest, Mr. Borden, is this that somebody take a look at it. If it is not possible, if it is impractical then that is something else again. You see that was done down in the Maritimes. Somebody did take a look at the situation and some recommendations were made down there.

THE CHAIRMAN: That is a very blessed part of our country.

MR. WHITTAKER: Well, I come from there too so I will agree with you.

THE CHAIRMAN: Is there any other manner in which you feel that you could help us with respect to this specific recommendation? This term generating plants is one - -

MR. WHITTAKER: Mr. Bird points out to me that, for instance, his area of the Crow's Nest Pass



2 is only 40 miles from the U.S. border and 100 miles from Calgary. There is a possibility that a plant located in that area would be able to export some power at some later date or possibly immediately if some arrangement could be made. Certainly the location is good.

One thing that concerns us is the competition of natural gas and the sale of gas at these very low rates. We think they are quite unrealistic. Certainly the best thing that could happen to the coal industry would be a fairly healthy increase in the price of gas. Now we realize when we say that it is going to cost the consumer something more. It might cause an increase in the price of gas. On the other hand we enjoy an advantage in the cost of domestic heating here which is enjoyed by no other part of the country. Even if the wellhead price of gas went up that is the small end of it.

You have down East some residential rates. There is the inland residential rate which runs around 1.78 thousand. If the price of gas went up 10 cents at the wellhead it is only about 5 or 6% increase in the cost of gas. That is the small end of it.

THE CHAIRMAN: Were you in this room this morning?

MR. WHITTAKER: Yes, sir. I cannot say that I agree with some of the statements made. That is only a matter of opinion. Take the Consumers Gas. Their residential rate is 1.84 a thousand. That is for the water heating and cooking rate. If you get into space heating rate it is \$1.40 or thereabouts. A modest increase in the wellhead price would certainly not



hurt the domestic consumer greatly. I will admit that it would have an effect on the industrial consumer because the industrial consumer is price conscious. To our way of thinking the determining factor as far as the domestic user of gas is concerned is what does it cost to convert originally. Once he has converted his demand becomes almost completely elastic. If the rate goes up he will burn gas.

I certainly do not agree either with the Trans-Canada evidence, with all due respect, and I disagree with Mr. Cass-Beggs on what he says they did with prices of domestic fuel. So far as the industrial gas consumer is concerned certainly the business is very responsive to changes in the price scales.

MR. COMMISSIONER HARDY: I wonder if I might ask has any attempt ever been made to put a dollar sign on the convenience element in the use of natural gas? What is it worth to the consumer to have the gas piped into his burners, as it were, rather than to have to handle it by some other means.

MR. WHITTAKER: I don't think that anybody can answer that question. I know this, in investigations we made, for instance, in the inland gas territory out through the Okanagan a year ago or more the people said "We are going to put in gas". We asked "Do you realize what it costs?" They said "No, we don't. It is good. Everybody says it is a marvellous fuel and we are going to put it in". I think a lot of people so long as they did not find the conversion cost a burden would put gas in regardless of the cost.



For instance, in Calgary the average householder pays about 35¢ a thousand for gas. That is where it is used for space heating and everybody uses it. Some of the surrounding towns pay as high as 70¢ but that does not bother anybody.

MR. COMMISSIONER HARDY: Is it not a fact there is some economic factor in there you cannot beat with the domestic consumer so your whole problem is the selling price of industrial gas.

MR. WHITTAKER: I don't think you can beat it in the domestic field. We have found some reconversions where people have used fuel oil and because they found fuel oil expensive and they have not had the same comfort level as with coal, because they tried to economize on fuel oil, we have had some reconversions and people gone back to coal.

So far as heating with propane is concerned people have found that very expensive except in a few localities. On the other hand, almost ever farmer's home in Alberta has a propane kitchen stove for cooking and water heating but the big field for coal undoubtedly is in the institutional and industrial type of heating.



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MR. COMMISSIONER HARDY: I do not quite understand your comment: your opinion was that as an industry you thought you would benefit by an increase in the price of gas. Do you mean both at the well-head and to the consumer?

MR. WHITTAKER: I will just give you an example: in one part of Alberta there is a cement plant which burns the equivalent of pretty close to 150,000 tons of coal; 10 miles away there is a mine which produces a high grade of coal around 14,000 Btu. That mine cannot compete with industrial gas or has not been able to compete since about 1950. Now, if the price of gas went up, let us say, by about 10¢ a thousand, then I think that situation would probably change. If you take a look at Trans-Canada, for example, they have been able to pick up every little load across the country; right across the Prairies, Winnipeg, down through Western Ontario, Fort William -- they picked up three paper mills in there -- up around into Kapuskasing, Smooth Rock Falls and places like that. We think that is the type of load coal could do a very good job on. As we say, the best thing that could happen to us would be an increase in the price of coal.

MR. COMMISSIONER HARDY: Was that load picked up on a straight basis of economics; comparable cost for so many Btu's?

MR. WHITTAKER: Yes. With the two-part pricing system that the gas companies use, you have a pretty terrific weapon from a competitive point of view, and where you have these allocations and joint costs -- you can go back to the evidence



of Trans-Canada in Calgary in that summary which Commonwealth Services made in regard to the marketing and sale of gas. You remember, just at the last they say this: in determining your gas market you have to go to your market zones and get your customers; see what you can get in the various zones and work your way back to the well, and that determines your price at the wellhead. Our thought is this: by varying the demand and commodity charges, you can, in any area, arrive at prices that will capture the business in spite of any other competitive fuel in Canada.

MR. COMMISSIONER HARDY: Can it? Is that not only because of this convenience factor?

MR. WHITTAKER: I am speaking about these industries; according to my calculations, in the eastern and central zones, I do not think from the evidence put in by Trans-Canada that the prices they charge in the central and eastern zones pay their way. What I mean is, as far as I can see not only do they not contribute anything to overhead or return on capital, but they do not even cover the cost of gas, acquisition and transportation. I would suggest that the Commission take a look at some of those figures. Because of that I think the domestic consumer pays more than he should.

THE CHAIRMAN: In the West?

MR. WHITTAKER: In the East.

THE CHAIRMAN: Pays more than he should?

MR. WHITTAKER: I think that is generally the practice.



THE CHAIRMAN: In relation to the industrial.

MR. WHITTAKER: Yes. In other words, the maximum volume; the Pipe Line Company set their market price low and their demand price high.

MR. COMMISSIONER HARDY: Is it not equally true of Trans-Canada, which has been established as a matter of national policy, by putting gas into a less economic favourable area, you also depress the local price at the wellhead, so that the western consumer who gets natural gas gets the benefit.

MR. WHITTAKER: Yes, the western domestic consumer does, but our own coal is less competitive thereby.

MR. COMMISSIONER HARDY: From your point of view it would be obviously better to sell the gas in an export market.

MR. WHITTAKER: Yes, sir.

MR. LIVINGSTONE: Mr. Chairman, you ask in what ways you could be of help, and I would like to tell you of one concrete example that I am familiar with. In many of these domestic mines which are producing domestic coal, their main hardship is getting over the summer period, and they require a base load, a company that requires a base load of 50,000 tons of industrial coal to get them over the summer. In the wintertime they have a certain amount of domestic business on which they can rely. Now, the company which I have in mind, they are very close to a company which used to use coal and when gas came in it took the market by putting in gas at a price which would get the market. The officials



of that company say that they will go back to coal probably in four or five years' time if the indications materialize that the price of gas will go up, and the gas companies have told the Commission, I understand, they expect it to rise. If there was some way of providing that base load for that company for a while to allow them to be able to produce about 50,000 tons of industrial coal and get it into one or two of these plants which, admittedly, say they will have to turn back to coal in four or five years, then you will be able to retain the nucleus of that company and carry them over to the time when it can stand on its own feet. At a time when you are making such expenditures for defence and tremendous expenditures in case of emergency we feel that the amount it would take to help this company and carry it over not on a long-term basis but on a temporary basis until it can stand on its own feet again. By so doing you not only preserve the industry, preserve the work for the men, you also get away from considerable Unemployment Insurance and things like that which they are now paying out.

I wonder, balancing out this \$4 a ton to export coal, whether it would be better to have an authority look into the business of paying \$4 a ton to ship that to Japan, rather than paying a subsidy to ship that to a factory 10 miles away which, they admit, will be going back into coal in the not too distant future. In that way you would preserve the nucleus of the industry and have it stand on its own feet in a very short time.

I think that an investigation by an



authority would indicate there are many cases where that could be done and that could solve the solution for many mines.

One instance fits in with Mr. Whittaker's thought on thermal power; maybe that is just one of the factories that can use coal a little bit ahead of time; sugar factories, cement factories, and so on, and it would not take too much to get those mines over their flat period for the next four or five years. I think that might be an avenue that could be looked into.

THE CHAIRMAN: Has this idea been put before the organization in Ottawa which has been in existence for a long time, the Dominion Coal Board, by your Association?

MR. LIVINGSTONE: This evaluation of the gas price has just, more or less, come on the scene in the last year, and I do not think it has been fully exploited.

THE CHAIRMAN: What about dieselization? The table shows that 2,800,000 tons of coal were used 10 years ago, and now it is down to 200,000.

MR. WHITTAKER: We were fully aware that was going to happen and still we have been unable to find markets to replace them, and as long as gas was not moving there seemed little hope we could get anywhere, but the gas situation has been moving fairly rapidly.

THE CHAIRMAN: You mean you are getting to a point, you feel that something has to be done; it is coming to a head?

MR. WHITTAKER: Very much so.



MR. COMMISSIONER HOWLAND: When you say gas is moving, do you mean the price is coming up and there is some hope now?

MR. WHITTAKER: Yes.

MR. COMMISSIONER HOWLAND: Then may I follow through: in your suggestion about Trans-Canada's pricing system, you were suggesting that some of these contracts en route were actually below the costs in the zones and were an absolute loss on the transaction. Is that your suggestion?

MR. WHITTAKER: Dr. Howland, I just used Trans-Canada as an example, and I think that would be more so in the eastern sections than in the western. But if it can happen in the East it can certainly happen in the West, too. We have had some experience right in the Province of Alberta with gas company competition which has been pretty rough. We just could not meet it. Now, we are getting to the point where we can.



MR. COMMISSIONER HOWLAND: Why would any company sell at an absolute loss? I can understand that a company will take a little bit of its overhead, but to actually lose money, not including your actual pumping cost, what would be the purpose of that?

MR. WHITTAKER: I don't think it is actual loss.

MR. COMMISSIONER HOWLAND: Well, if you did not recover the price of the gas in the pumping of the gas - -

MR. WHITTAKER: Oh, you recover that.

MR. COMMISSIONER HOWLAND: I am sorry. I thought you said they did not include all the pumping costs.

MR. WHITTAKER: Well, I was referring to some of the data set out in Trans-Canada's evidence. Exhibit C-24-7 and, for instance, they show a unit cost of transmission -- and I am using the 1960-61 figures -- as being 30.32 cents per MCF and a unit cost per 100 miles of 1.782 cents, the cost of gas purchased at 10.86 cents, Alberta Trunk gathering at 4.09 cents.

Now, taking the mileage from the Alberta border to the mid-point of Trans-Canada's eastern zone, which is roughly 2,200 miles times 1.78 cents is 39.1 cents, and if you add the cost of gas at the Alberta border to that 14.9 cents it makes a total of 54 cents per MCF delivered.

The return on the investment at 7 1/2% and income tax accounted for 44.97 percent of total transmission cost, and the difference, that is, 55%



of the transmission cost then is 55 times 39.1 cents, equalling 21.5 cents per MCF. So that is your cost of transmission.

You take that and add it to the cost of acquisition of gas at the Alberta border and get 36.4 cents, but the interruptible price in the eastern zone is 30 cents.

Now, maybe there is something wrong with my arithmetic, but that is why I say I cannot understand some of that pricing.

THE CHAIRMAN: Maybe the carrying charges around the Lakes are a little less than otherwise they might be.

Shall we have a ten-minute break, gentlemen? We will reassemble in ten minutes.

---A short recess.

THE CHAIRMAN: Gentlemen, we will resume our hearing.

MR. COMMISSIONER HOWLAND: Mr. Whittaker, as I have understood your thoughts about the basic coal problem that you have, it is that the industrial market is really the potential market that you look forward to with any real hope?

MR. WHITTAKER: That is correct.

MR. COMMISSIONER HOWLAND: That industrial market to include coke and steel markets in general. If there is a policy of exporting, say, from Alberta, which is a great seat of natural gas at the moment across Canada and to the United States, the tendency would be, as I understand it, for the price of gas to rise in response to an increased demand. Is it



this tendency to lag in the response of supply and demand that is really catching you?

MR. WHITTAKER: I would say that that is the biggest obstacle we face. Our trouble has been that gas has had nowhere to go and there has been no competition between firms, no substantial competition between firms wanting to move gas and sell it in larger markets. I think when that occurs it is inevitable that the price of gas will go up and, while it may involve some modest increase in cost in domestic heating, at the same time I think that the overall benefit to the economy as a whole will far outweigh any disadvantages that might accrue from that policy or that wider distribution of gas.

MR. COMMISSIONER HOWLAND: In other words, the free play of competition setting the price of gas and oil and coal is what you would look for as a hope for the coal industry?

MR. WHITTAKER: I would say so, yes.

MR. COMMISSIONER HOWLAND: Taking this question of exporting coal, I see that the change in the subvention from \$2.50 to \$4.00 has come about. Now, do you feel this is likely to represent any more than a temporary aid to the industry? Do you look for any long-term development of export from Alberta?

MR. WHITTAKER: To where?

MR. COMMISSIONER HOWLAND: To the Far East, if you like, Japan or other Eastern areas.

MR. WHITTAKER: I personally regard that as a rather tricky and highly competitive market because there are so many alternative sources of



coal; but if we could develop some reasonably substantial markets in the next two or three or four years they would get us over the hump and I think the money expended would be very much justified.

But, for the long-term proposition, there are so many imponderables, coal from Australia, India and Vietnam and all those things; shipping rates enter into the thing -- well, shipping rates are low at the moment but, when we had the Suez crisis, they were just as high then as they are low now. So all of those things make it just a little bit unstable.

But I still think we should continue to try and develop that market. After all, the United States have been shipping something in the order of four million or five million tons a year into that market. The Japs, when they were here in November of last year, told us that they were going to increase their steel output by something like 60% in the next five years. Now, true, they have been caught up with this bit of a recession, too, and they are operating now at somewhere around 55 to 60% of capacity, so they have cut back on their coal orders; but if they get over that situation they will be in the market again, unless they get their coal from alternate sources such as Red China, with whom they have not been dealing for some time, although there has been some talk of a barter deal in the last few weeks.

MR. COMMISSIONER HOWLAND: Do you foresee any large development in the generation of electric power from coal; that is, for export purposes, if it was allowed to be exported?



MR. WHITTAKER: Well, I think, aside from this thermal power development as such within our own country, I think the biggest hope is the export of coking coal to the Pacific Northwest for the development of the steel industry there. We are also shipping some coal to Utah. The Utah and Western Colorado coals are light coking. Their production has been cut back, too, consequently we have been cut back by 50% in recent months there. But if there is any expansion, if there is the expansion in the Pacific Northwest and on the Pacific Coast that some people envisage, then we should have a good chance of some substantial markets in the San Francisco area, and the Crow's Nest Pass should be the logical area to supply that coal, not all of it, but part of it, because of the fact that this Crow's Nest coal is a very good grade of coking coal, better than the Americans have from their own areas.

THE CHAIRMAN: I think Mr. Bird, in answer to Dr. Howland's question, would also say it would be a good idea to utilize the coal in Canada to fire a thermal plant and export the electricity.

MR. BIRD: Mr. Chairman, I tried to keep quiet on the subject. However, Dr. Howland asked the question.

It would seem to me that that possibility exists. I do not know how you can export what you have not got. If you have not got a surplus of power, certainly you cannot export it, and therefore it would seem to me that if private companies could be induced to undertake the erection of a plant, a thermal power plant in areas such as the Crow's Nest Pass,



where enormous quantities of coal are found underground, both coke and coal being available -- and I am thinking in terms of large-sized plants, that is, perhaps 200,000 or 300,000 kilowatt plants -- then a surplus of power would exist, since we must have heavy industry in our own province to survive, we must bring the heavy industry to coal, where power or energy is available. Then we would have that and we will just have a surplus, and my view has long since been that if the Government of the day could be induced to subsidize the kilowatt rather than the ton of coal, it would cost them less and yet accomplish the same thing by bringing about the survival of the mines.

The simple fact is that you cannot have mines, simply vacate them; flood them, if you like, to try to preserve it that way. You just do not open them up anymore, and then you have no developed reserves of coal, so you cannot go back in a hurry at that time.

The point is that if we have developed reserves of coal in the millions of tons, as we have, then I think they should be made use of and add further to the development of the coal, because there is a shortage of power, or will be one day, so let us create a surplus of electrical energy by means of building thermal plants.

MR. COMMISSIONER LADNER: Mr. Whittaker, is the anthracite coal in Alberta as good a quality for coking as Virginia?

MR. WHITTAKER: The anthracite coal does not coke, Mr. Ladner. The Bituminous coals of



Alberta are not perhaps as strong cokers as some of the coal from the Eastern United States, but they are generally low in sulphur and low in phosphorous, which is a great advantage.

MR. COMMISSIONER LADNER: It is the coking coal I had in mind, because I was in Japan two years ago on a Board of Trade mission and we met the leaders of the steel industry and the Government Departments, officials in Japan, to discuss a number of questions, amongst which was the steel industry, of which I have some little knowledge, the fabricating end of it, and the head of one of the largest concerns there informed me that they purchased most of their coking coal from Virginia and it cost them \$17 a ton, and I just wondered how they could go to Virginia if there was equally good coking coal in Western Canada.

MR. WHITTAKER: Well, some of the finest coal produced in the world comes from West Virginia, Western Pennsylvania, Eastern Ohio and so on, and it is high volatile, strongly coking and low in ash. On the other hand, they have quite a lot of high sulphur coal there, some of it high phosphorous, and that does not help it from a steelmaking point of view.

MR. COMMISSIONER LADNER: That is true.

MR. WHITTAKER: But I think some of those things may balance out and U.S. coals -- you have got to remember this, Mr. Ladner, that metallurgical coke is seldom made from one type of coal. The general practice is to blend two or three types of coal to give the structural and chemical characteristics



that they look for in blast furnace operations.

That is the reason why we sell coal in Utah, to Geneva and the U.S. Steel down there. The coal used for steel is a blending of domestic coal and others and, if they do not buy it from us, they would have to bring it in from Alabama, which is even farther away.

The Japs also produce coke and coal on their own.

MR. COMMISSIONER LADNER: Not much, though.

MR. WHITTAKER: A good deal is high ash and quite a lot is weakly coking, so the coal that they do buy from foreign sources is bought for blending purposes.

MR. COMMISSIONER LADNER: Is any coal in Alberta useful for that purpose?

MR. WHITTAKER: Yes, the coals in the Crow's Nest Pass of Alberta and Eastern British Columbia are excellent coking coals.

THE CHAIRMAN: Mr. Whittaker, on page 28 of your brief you recommend that an energy authority be established that would be technical in composition and that its functions be both advisory and regulatory. Now, obviously you are not referring just to coal in that. You are referring to the various sources of energy, because you immediately incorporate the suggestion that the Dominion Coal Board become an integral part of any such energy authority.

What do you have in mind when you say the functions should be regulatory?

MR. WHITTAKER: Well, of course, I realize



that the natural resources now belong to the provinces, so within a province I imagine that the Provincial Governments would feel that there should be no interference with things that are strictly within the province, strictly occurring within the province.

On the other hand, when you transport any form of energy across a provincial border or into another country, then of course you get into the realm where some Federal body would have to regulate it, and there are two or three regulatory bodies now, the Transport Board, the board that regulates water resources and the export of electricity and so on, and it seems to us that all of those functions should be combined under one board which would be specialists in all the energy fields.



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We feel, just as this Commission states, that to do a job you have to consider all of the various sources of energy together. We think if that were done you would get away from this sort of thing where you have an isolated incident where you pay heavy expense to move coal past a cement plant 10 miles away. Perhaps with little or no assistance you might put that coal in that particular spot.

MR. COMMISSIONER BRITNELL: Mr. Chairman, right on that same point I have a question. I wondered what Mr. Whittaker meant by saying it ought to be technical in composition, whether he would mind elaborating that a bit?

MR. WHITTAKER: I was thinking, Dr. Britnell, more of the Federal Power Commission in the States. While they have had a technical staff and so on, I don't think their appointments are of technically competent people. At least, that is perhaps not the first consideration in their appointments. What we were trying to say there was this: we would like the people to have some competence in the particular fields to be members of a Commission of that kind.

MR. COMMISSIONER BRITNELL: Were you visualizing a Board consisting of engineers, shall we say, or lawyers?

MR. WHITTAKER: We might have been contemplating a couple of economists!

MR. COMMISSIONER BRITNELL: I do not aspire to that. You have something in mind other than laymen?



MR. WHITTAKER: Perhaps, yes. I think we all know of appointments to some Boards where the people have never had any particular interest in that particular field. They may be perfectly good people and all that, but we are just throwing that out as a suggestion.

THE CHAIRMAN: What you mean is, you want five or six Solomons.

MR. WHITTAKER: That is what you need anyway.

MR. COMMISSIONER BRITNELL: One other point, Mr. Chairman: I have gathered from the presentation, from some of the collateral observations of the spokesmen for the coal industry, that they would visualize this period of emergency of the coal industry as being two, three, four, or five years in which a subsidy of some sort, either thermal plants or bituminous coal would be required. I was wondering, looking over these statistics and particularly the very precipitous decline as evidenced last year in coal consumption, which would seem to indicate that they had not reached the bottom yet, whether it is not a pretty optimistic assumption that in two, three, four or five years you would be well on the way back to the point where no increase over the present time would be necessary. I was wondering what the basis was? I haven't been able to see it in anything you said.

MR. WHITTAKER: I certainly was not thinking in terms of two, three or four or five years. I think the very minimum would be five.

MR. COMMISSIONER BRITNELL: One year more



or less does not matter.

MR. WHITTAKER: Maybe ten before things would pick up in any substantial way. I do think the gas situation is now moving fairly rapidly. I do think if we could get help on the things we mentioned within the next three or four or five years, it would mean a difference between survival or non-survival of an enterprise where considerable money is invested and a considerable number of people have their livelihood, homes, and savings, and so on.

MR. COMMISSIONER BRITNELL: I gathered the need was certainly urgent and immediate. Do I gather from what you say most of the hope the emergency might be over in five years or better is based on anticipation of higher prices for gas, either to the consumer or wellhead, or both?

MR. WHITTAKER: Not that alone. There are a number of things, you see. For instance, export of coal to the United States is only two years old. There is a possibility, perhaps, of some steel manufacture. We have been investigating over the last several years all through the Pacific Northwest looking for industries which use high carbon coals, metallurgical industries. We have picked up some business there. We are not picking it up just as fast as we need it. I certainly would not want to minimize the problem.

MR. COMMISSIONER LADNER: What reasons would you have for saying that ten years would be the time as compared with five?

MR. WHITTAKER: It takes time for these things to move.



MR. COMMISSIONER BRITNELL: And that is what disturbs me. It seemed a very short space of time. I was looking for encouragement and hope that you might.

MR. COMMISSIONER LADNER: If Canada's policy were being worked out, would it be on sound grounds to base it on a five-year period or a ten-year period?

MR. WHITTAKER: Well, I could not say that in five years, I could not possibly see a sound and healthy industry on the basis that it was in 1950. It might be in fifteen years. If we could turn the corners, and if we could keep our present operations going for five years, then I think we could start to see the way clear to better things.

MR. COMMISSIONER BRITNELL: Thank you.

THE CHAIRMAN: Thank you very much, Mr. Whittaker, Mr. Bird, and Mr. Livingstone. As a matter of fact, we thought this was a very interesting brief in that you do express the situation very concisely and well. The members of the Commission are interested in the brief and I thought you were very moderate in the manner in which you presented it and the language in the brief. Thank you very, very much for appearing before us, gentlemen.

MR. WHITTAKER: On behalf of Mr. Bird and Mr. Livingstone and myself, I would like to thank the Commission for their kind and courteous hearing. It has been a pleasure to be here, and if we have been of any help at all to the Commission, we certainly have been well repaid for any trouble we have had.



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THE CHAIRMAN: Thank you very much.

We shall adjourn until tomorrow morning
at 10.00 o'clock.

---Whereupon the hearing adjourned at 4.30 p.m.
until 10.00 o'clock a.m. on Thursday, April 17,
1958.

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ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

REGINA

SASK:

VOLUME No.:

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Regina,
commencing Monday, April
14, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	--	Chairman
Mr. J.L. Levesque	--	Member
Mr. G.E. Britnell	--	Member
Dr. R.D. Howland	--	Member
Mr. L.J. Ladner, Q.C.	--	Member
Dr. R.M. Hardy	--	Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	--	Secretary to the Commission.
Major N. Lafrance	--	Assistant Secretary to the Commission



APPEARANCES:

Representing Producers Pipelines Ltd. and
Westspur Pipe Line Company:

Mr. M.A. MacPherson	- Counsel
Mr. D.M. Tyerman	- Counsel
Mr. J.A. Harvie	- General Manager
Mr. R.B. Richards	- Assistant Treasurer and Assistant Secretary.

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-17-1	Submission by Producers Pipelines Ltd. and Westspur Pipe Line Com- pany.	3423



APPEARANCES:

Representing Consolidated Mining and Smelting
Company of Canada Limited:

- Mr. Cecil Frere - General Counsel for
Consolidated Mining
and Smelting Company
of Canada Limited.
- Mr. R.G. Anderson - President and General
Manager of the West
Kootenay Power and
Light Company Limited.
- Mr. W. Wadeson - Hydrologist,
West Kootenay Power
and Light Company Limited.

- - - - -

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
R-17-2	Submission of The Consolidated Mining and Smelting Company of Canada Limited	3470
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R-17-3	Tables of Production Under M.P.R. Control compared with possible control, filed on behalf of the Province of Saskatchewan.	3519



Thursday,
April 17, 1958

---On resuming at 10.00 a.m.

---Mr. Commissioner Levesque was not present.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearings. Mr. Patterson?

MR. PATTERSON: Mr. Chairman, this morning we will have the submission of Producers Pipelines Ltd. and Westspur Pipe Line Company. We might commence by marking a copy of the submission as Exhibit R-17-1, and then I would ask Mr. MacPherson, who is appearing for these companies and who has with him Mr. Tyerman, to introduce the gentlemen for the company to the Commission.

---EXHIBIT NO. R-17-1: Submission by Producers Pipelines Ltd. and Westspur Pipe Line Company.

THE CHAIRMAN: Mr. MacPherson?

MR. MacPHERSON: Mr. Chairman, Mr. James Harvie will be giving evidence, and I have with me as well Mr. Richards of the Producers Pipelines.

THE CHAIRMAN: Thank you. Mr. Harvie, are you going to be the one to read the brief?

MR. HARVIE: Yes sir, I believe so.

MR. MacPHERSON: Mr. Chairman, I think I might qualify him first, as to who he is and his position.

THE CHAIRMAN: Yes, would you do that?

MR. MacPHERSON: Mr. Harvie, you were born in the Province of Alberta?

MR. HARVIE: Yes, sir.

MR. MacPHERSON: And you are a graduate of the University of Alberta?

MR. HARVIE: Yes, sir.



MR. MacPHERSON: In 1940?

MR. HARVIE: That is correct.

MR. MacPHERSON: Following which, I believe, after taking your BSC degree, you were two years in the oil fields of Alberta with Anglo-American?

MR. HARVIE: Anglo-Canadian.

MR. MacPHERSON: Anglo-Canadian, yes, and then you were three years in the Air Force?

MR. HARVIE: That is correct.

MR. MacPHERSON: Following which you were petroleum engineer for California Standard?

MR. HARVIE: Yes, sir.

MR. MacPHERSON: And from 1946 to 1957 you were a petroleum engineer with Royalite?

MR. HARVIE: That is correct.

MR. MacPHERSON: And you came to your present employment in 1957?

MR. HARVIE: That is correct.

MR. MacPHERSON: Presently you are vice-president and general manager of Producers Pipelines and Westspur?

MR. HARVIE: Yes.

MR. MacPHERSON: Now, I would have Mr. Harvie read the brief, Mr. Chairman.



Submission of
PRODUCERS PIPELINES LTD. and WESTSPUR
PIPE LINE COMPANY

APPEARANCES:

Mr. M. A. MacPherson	- Counsel
Mr. D. M. Tyerman	- Counsel
Mr. J. A. Harvie	- General Manager
Mr. R. B. Richards	- Assistant Treasurer, Assistant Secretary

MR. HARVIE: SUBMISSION BY PRODUCERS PIPELINES LTD. and WESTSPUR PIPE LINE COMPANY TO THE ROYAL COMMISSION ON ENERGY.

INTRODUCTION

Producers Pipelines Ltd. and Westspur Pipe Line Company have prepared this Submission in order to provide the Royal Commission with information about the nature and extent of the business of the two companies as operators of oil pipelines. In order to assist the Royal Commission, this Submission examines the reasons for the creation of two separate companies; their corporate organization; their construction programs; their pipeline operations and their financial structure. This Submission also reviews the Statutory provisions conferring jurisdiction on Federal and Provincial authorities and offers some comment on the effect of that jurisdiction over the gathering and transportation of oil in the expanding south-eastern Saskatchewan area in which the two companies operate.

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For the sake of convenience, Producers Pipelines Ltd. and Westspur Pipe Line Company are in most cases, in this Submission referred to as "Producers" and "Westspur" respectively.

SECTION I

ECONOMIC CONSIDERATIONS

The orderly and economic development of an oil field requires facilities for transportation of crude oil at low cost. Bearing this in mind as an element in the economic planning of all phases of operations in the oil industry, from exploration, drilling and production to marketing, a study of Producers and Westspur and their relationship to producing oil companies will, it is thought, be of interest to the Royal Commission.

Both Companies were organized by producing oil companies or their affiliates operating in south-eastern Saskatchewan, because these companies considered that a pipeline owned by producing companies would be in their best interests. Producers now holds all the shares in Westspur, except Directors' qualifying shares, and all the shares in Producers are held by producing oil companies. This close relationship with the producers has resulted in the two companies being kept well informed of the progress of exploration, and the development drilling.

MR. PATTERSON: Could I stop you there for a moment, Mr. Harvie: It has been suggested that perhaps there is some complaint to be made about the producers owning shares in the pipeline company, and I am wondering whether there is any



real merit in the suggestion that you need the close relationship such as set out in your brief in order to keep the pipeline company informed of the progress of exploration and development drilling? My thought is this, that since a pipeline company provides a service to the producers they would naturally be inclined to keep it well informed of exploration and development drilling. In other words, I am questioning to some extent this statement you make.

MR. HARVIE: I think probably a little expanding of this statement would be in order in that case. We have found that being as close to the oil companies as we are, we are a little better informed; we are a little closer to the actual development as it goes on. Our actual construction program is limited to the summer months and whatever surface construction we can do in the winter. Consequently, it is in the producers' interest to inform us as rapidly as they can, but, generally speaking, unless they are aware of this problem they sometimes are a little delayed in passing the information to us, and it would take a considerable staff on our part to keep up with all the development drilling that has been going on in Saskatchewan in the last 17 years. We have felt we have been a little better informed and can keep our program geared to the development drilling.

MR. PATTERSON: What you are saying is that because the producers are a little slack in keeping you informed, their interest in the company is really the same as perhaps another job you could well do, and that is keep them informed without



them being there at all -- of this problem of your company?

MR. HARVIE: Well, if you wanted to sit on their tail, so to speak, you could possibly get the same information.

MR. PATTERSON: The same result?

MR. HARVIE: But you would have to have a considerable staff. I do not think we have had any complaints at the present time on our connections -- I am sure we haven't.

MR. PATTERSON: By that you mean producers who are independent and are not shareholders have not complained as to the service you have given them?

MR. HARVIE: We have received no complaints.

MR. PATTERSON: Which, while it supports your position, also can be used to support the other, that you can serve a producer who has no interest whatsoever in your company?

MR. HARVIE: If you are going to be a pipeliner, you should serve the producer.

MR. PATTERSON: Thank you.

MR. MacPHERSON: Producers and Westspur publish tariffs which are kept under constant review with the object of reducing transportation costs. Copies of current tariffs are contained in Appendix Number 1. In addition to the tariffs under which crude oil may be transported to the tankage of Interprovincial Pipe Line Company at Cromer, Manitoba; Westspur has entered into Joint Tariffs with Interprovincial Pipe Line Company and Lakehead Pipe Line Company for the transportation



of medium crude to Wrenshall in Minnesota, and to Superior in Wisconsin, and also with Interprovincial, Lakehead and Minnesota Pipe Line Companies for the transportation of medium crude to St. Paul and Pine Bend in Minnesota.

THE CHAIRMAN: Excuse me, do you deal with this question of review of tariffs later in the brief?

MR. HARVIE: No sir, I do not.

THE CHAIRMAN: Well then, you say Producers and Westspur publish tariffs which are kept under constant review with the object of reducing transportation costs: constant review by whom?

MR. HARVIE: By our organization.

THE CHAIRMAN: By any government agency?

MR. HARVIE: Not that we are aware of.

THE CHAIRMAN: Do you file tariffs?

MR. HARVIE: Yes, sir.

THE CHAIRMAN: Are they approved or disapproved, or just filed?

MR. HARVIE: They are just filed.

THE CHAIRMAN: So there is really no active administrative review of the contents of those tariffs that you know of?

MR. HARVIE: Not that we know of, sir.

THE CHAIRMAN: Where are they filed?

MR. HARVIE: Westspur files its tariffs with the Board of Transport in Ottawa, and Producers Pipelines files its tariffs with the Provincial Government in Regina.

THE CHAIRMAN: Has Producers ever been asked to lower its tariff?

MR. HARVIE: No, sir.



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THE CHAIRMAN: Has Westspur?

MR. HARVIE: No, sir.

THE CHAIRMAN: So that in reality there has been no active examination of your tariffs by any government agency: is that a fair statement?

MR. HARVIE: Yes sir, I would say so.



THE CHAIRMAN: I am not suggesting there is anything wrong with your tariffs but it is a matter with which we are charged to look into.

MR. HARVIE: I believe that the government agencies do look after tariffs, as to what extent, I am not aware of. I think, possibly, here we might expand a little bit on the information of these two companies which were formed as a low-cost transportation company and that is the reason for our statement here. The purpose of those two companies is for low-cost transportation and, consequently, we do review them as often as we can and make such reductions as we can.

THE CHAIRMAN: What do you mean by a low-cost transportation?

MR. HARVIE: We believe by accepting a lower rate of return we would be operating at a lower cost.

THE CHAIRMAN: In saying low-cost, you distinguish, surely, between high-cost and low-cost? Are there high-cost transportation companies?

MR. HARVIE: I would imagine there are



but I would not have any examples.

THE CHAIRMAN: How do you arrive at your tariff?

MR. HARVIE: We go through the minimum cost and work on a minimum return to the shareholders.

THE CHAIRMAN: I understand minimum cost, if you are looking to operate efficiently you naturally want to keep the cost down but what do you mean by minimum return; do you have a rate basis?

MR. HARVIE: It is generally understood between shareholders of the company they will accept a low rate of return.

THE CHAIRMAN: On their investment?

MR. HARVIE: On their investment.

THE CHAIRMAN: But that has nothing to do with the rate base, has it?

MR. HARVIE: No; the rate base is made up of other factors.

THE CHAIRMAN: Quite; and is your tariff based on a rate base?



MR. HARVIE: It has to be based on your operating cost, yes, which would go into your rate base.

THE CHAIRMAN: In realty, you do not work out your tariff on the basis of what is a proper rate base and fair and reasonable return on that rate base, do you?

MR. HARVIE: Looking at the items that go into a rate base, you are looking at operating costs, interest on your money, depreciation.

THE CHAIRMAN: That is right, income tax, working capital.

MR. HARVIE: Right; most of those items are fixed.

THE CHAIRMAN: Well, your operating costs would vary.

MR. HARVIE: You try to keep those to a minimum. The other items, interest on your money, depreciation, are fixed.

THE CHAIRMAN: And you fix a percentage return on that base in order to reach your tariff, do you?



MR. HARVIE: Yes, I believe that is a correct statement.

THE CHAIRMAN: What rate of return do you take?

MR. HARVIE: We consider a 5% --.

THE CHAIRMAN: 5%; so, is it fair to say that your published tariffs, your appendix 1, is based on your rate base containing those proper elements that go into making a proper rate base plus 5%?

MR. HARVIE: I believe that is right.

THE CHAIRMAN: On that rate base?

MR. HARVIE: That is right.

THE CHAIRMAN: But nobody ever fixed your rate base for you?

MR. HARVIE: No, sir.

THE CHAIRMAN: That is done by the company itself, as a matter of management.

MR. HARVIE: That is right.

THE CHAIRMAN: And that applies both to Westspur Pipe Line Company and Producers Pipelines



Limited.

MR. HARVIE: Yes sir, that is right.

MR. MacPHERSON: Copies of the tariffs
are attached as Exhibits.

THE CHAIRMAN: I realize that, but Mr.
MacPherson, just looking at a tariff --.

MR. MacPHERSON: Yes, I know that.

MR. HARVIE: There is one other tariff
I forgot to mention. We did file with the I.C.C.
a joint agreement we have entered into.

THE CHAIRMAN: In the United States?

MR. HARVIE: In the United States, be-
cause several of our current carriers are under
the I.C.C. regulations.

THE CHAIRMAN: That does not carry the
principle or theory we are talking about one iota
further than we have here because they do not look
into it either.

MR. HARVIE: No, sir; we are not subject
to I.C.C. regulations.

MR. COMMISSIONER LADNER: Are you not sub-
ject to the statutory authority of the Public



Utilities Commission?

MR. MacPHERSON: In the United States?

MR. COMMISSIONER LADNER: In Saskatchewan.

MR. MacPHERSON: We probably would be;

Mr. Harvie is just indicating what the situation is.

MR. HARVIE: We have no Public Utilities Commission as such; we have a local government Board.

MR. COMMISSIONER LADNER: Do they have jurisdiction over matters we have been discussing here?

MR. MacPHERSON: Yes, they have but none has been exercised.

THE CHAIRMAN: Please proceed.

MR. HARVIE: Contruction: Towards the end of 1954, the rapid rate of discovery of crude oil production in south-east Saskatchewan led Imperial Oil Limited to investigate the possibility of the provision of pipeline facilities. After investigation, Imperial Oil Limited was convinced of the need for a 12-inch trunk line leading from Midale in Saskatchewan, through the area at that time known to be producing, and across the Manitoba-Saskatchewan



boundary to connect with the Interprovincial Pipe Line at Cromer, Manitoba. Because an interprovincial boundary would be crossed, it was necessary to set up a pipe line company by a Special Act of Parliament. Westspur was so incorporated on May 26, 1955, and on October 13, 1955, was granted a Permit by the Board of Transport Commissioners in the following terms:

"That leave be, and it is hereby, granted to
"Westspur to construct a pipe line consisting of one or more lines of pipe for the
"transportation of crude oil and other liquid
"and gaseous hydrocarbons from a point in the
"vicinity of Midale, Saskatchewan, to a point
"in the vicinity of Cromer, Manitoba, and a
"spur from Alida to Nottingham, both in
"Saskatchewan, the general location of the
"pipe line and spur being as shown on the
"map dated May 31, 1955, filed with the Board
"under file No. 45371.27, together with such
"pipe lines and other facilities as may be
"required for the purpose of gathering



"crude oil and other liquid and gaseous

"hydrocarbons along and in the vicinity

"of the pipe line route."

Construction was started on November 12, 1955, but almost immediately was held up by severe weather and then restarted in Spring of 1956. Subsequently, Westspur constructed gathering facilities in the areas of Midale, Steelman, Frobisher, Alida, Nottingham, Rosebank, Ingoldsby, and Edenvale. The first delivery of crude oil to the Interprovincial pipe line was made on July 18, 1956. By this time, the need for an extension of the pipe line to the Weyburn field was apparent. During August of 1956, two other pipe line companies made application to the Minister of Mineral Resources of the Province of Saskatchewan for permission to construct a gathering system in the Weyburn field. The Minister of Mineral Resources, on September 28, 1956, granted Trans-Prairie Pipelines Limited a permit to construct. Westspur, being under Federal jurisdiction, made application to the Board of Transport Commissioners on September



16, 1956, but at the Hearing on October 15, 1956, their application was dismissed. On November 5, 1956, Westspur again applied to the Board of Transport Commissioners, this time for a permit to build a pipe line into the Florence-Carnduff-Mlen Ewen area. The application was heard in Ottawa on November 22 and November 23, 1956, and the Board of Transport Commissioners reserved their decision.

THE CHAIRMAN: I wonder if we could stop here for a moment and if someone could point out on that map just exactly what we are talking about.

MR. MacPHERSON: I think it would be of interest to the Commission to realize the application referred to the construction of this line from Midale.

MR. HARVIE: The first line is from Midale into Weyburn. This is the line for which the permit was granted.

THE CHAIRMAN: Is that a map of Saskatchewan?

MR. MacPHERSON: This is all Saskatchewan



up to here. It just indicates the heavy black line as the original Westspur line and it will be apparent it is just by an accident of geography that we crossed the interprovincial line. Cromer is only 7 miles on the other side of the border but by virtue of the station of the Interprovincial Company there instead of here, the application had to be made to the Board of Transport rather than to the Conservation Board of Saskatchewan. This is a main trunk line from Cromer to Midale and as Mr. Harvie said, this is the extension where the difficulty started out.

THE CHAIRMAN: You are going backwards, are you not? The oil flows from Midale through to Cromer.

MR. MacPHERSON: Yes, sir and this is Weyburn up here and this is the application that was made; an application for gathering lines was made to the Conservation Board in Saskatchewan and then an application made in respect of the same line or the same area to the Board of Transport



by Westspur and resulted in the jurisdictional dispute between the two.

THE CHAIRMAN: And the Province granted a permit to Trans-Prairie for that?

MR. MacPHERSON: Yes, sir.

THE CHAIRMAN: And does Westspur not leave the boundary of Saskatchewan except at that one point at Cromer?

MR. MacPHERSON: That is right; it just goes 7 miles across the border into Manitoba.

THE CHAIRMAN: So it would be wholly within the jurisdiction of the Province?

MR. MacPHERSON: Everything is in Saskatchewan excepting that bit of line going to Cromer and the only reason we had to go to Cromer was because that was the station of Interprovincial Pipeline. If Fleming and Moosomin had been on the Saskatchewan line the whole pipeline and everything else would be in the boundaries of Saskatchewan.

THE CHAIRMAN: Physically within the boundaries of Saskatchewan?



MR. MacPHERSON: Physically within the boundaries of Saskatchewan.

THE CHAIRMAN: But not necessarily within the jurisdiction because of the hook-up with Interprovincial?

MR. HARVIE: This piece of line crossing into the terminal going south into Glen Ewen; this is the one which the decision of the Board of Transport referred to.

MR. MacPHERSON: And later we got per mission from the Conservation Board in Saskatchewan, Producers did, -- Mr. Harvie might explain the different colours on this map.

MR. HARVIE: The black line is the main trunk line transmitting and operating from Midale through to Cromer. This pipeline system is a 12 inch pipeline and from Midale to Steelman 12 inch and 16 inch; from Midale to Cromer as shown by green lines are Westspur under the original application to the Board of Transport Commissioners. Nottingham, Frobisher, Steelman and Midale field are red lines and they are lines that were constructed by



Producers Pipelines under Provincial in 1957.

MR. MacPHERSON: In some instances you have red lines going out from green lines. That is, in some instances where you have a gathering system approved by the Board of Transport Commissioners you had to extend with permits from the Province of Saskatchewan.

THE CHAIRMAN: To Producers.

MR. MacPHERSON: I may say, Mr. Chairman, on the question of jurisdiction one phase of this was argued last November before the Board of Transport when the Deputy Attorney General, Mr. Jacket, was present and he threw no road block in our way in respect of such a contingency you refer to where there is joining up with Inter-provincial in the Province because of a line such as South Saskatchewan, which is involved in that connection.



MR. HARVIE: In an effort to find a solution to the problems arising out of the overlapping Dominion and Provincial jurisdiction a new company, Producers Pipelines Ltd., was incorporated under the Laws of the Province of Saskatchewan on February 27, 1957 and became the parent company of Westspur rather than its subsidiary in order to provide separate jurisdictional status for the two companies. Producers applied for, and obtained from, the Minister of Mineral Resources, a permit to construct a pipeline into the Florence-Carnduff-Glen Ewen area. Westspur withdrew its application and Producers proceeded on the strength of the permit obtained by it on March 18, 1957, from the Minister of Mineral Resources. Later during 1957, Westspur authorized by the Board of Transport Commissioners, constructed a 16-inch pipeline from Steelman, Saskatchewan, to Cromer, Manitoba, which looped the original Westspur 12-inch line for 75 miles. During the same period Producers, authorized by the Minister of Mineral Resources, constructed the Florence-Carnduff-Glen Ewen gathering system and also pipelines into the Arlington-South Manor and Oxbow areas, Producers also constructed all additional gathering facilities in Midale, Steelman, Frobisher, Alida, Nottingham, Rosebank, West Kingsford, Oxbow, Glen Ewen, Carnduff and South Manor fields. As a result of this development in four of the main gathering areas ownership of the gathering network is divided between the two companies.

In order to remedy the difficulties of operating their integrated systems under divided



ownership, on November 5, 1957, Westspur applied to the Board of Transport Commissioners for permission to sell and convey its gathering systems to Producers. This application was dismissed on the ground that Westspur's gathering lines form part of its interprovincial undertaking and that Producers could not operate the gathering lines because it is not a Special Act Company.

The pipeline system operated by Westspur and the system operated by Producers, gathering and transporting crude oil under Federal and Provincial jurisdiction, are shown on the map forming Appendix Number 2. The problems introduced by divided ownership of an integrated system stem from the conflict of jurisdiction under present Dominion and Provincial legislation. These problems are not confined to Producers and Westspur but affect the pipeline industry as a whole.

During 1956, Westspur delivered to Interprovincial Pipe Line Company tankage at Cromer, Manitoba, 4,133,711 barrels of crude oil. In 1957, Westspur delivered 19,814,042 barrels of crude oil.

Appendix Number 3 contains a table of the length and varying size of pipe which has been used. It should be noted that the small quantity of pipe laid during 1955 has been included under the heading for 1956. The growth of the system operated by Producers and Westspur is indicated by the following consolidated figures:

	<u>1955</u>	<u>1956</u>	<u>1957</u>
Total Assets	\$3,893,936	\$8,492,208	\$16,178,970

By December 31, 1957, the capacity of the



trunk line was 95,000 barrels per day. The construction planned for 1958 will increase this capacity to 133,000 barrels per day. At present, 81,000 barrels per day are being shipped (16,000 barrels of medium crude oil and 65,000 barrels of light crude oil.)

MR. MacPHERSON: It might be of interest to the Commission when in 1955 an application was made to the Board of Transport for permission to build this line, there were three applications and every one was reasonably optimistic. The most optimistic prognostication that would be made was there would be 20,000 barrels throughput in 1956, and by 1959 there would be 33,000 barrels throughput. Actually, you see here that in March of 1958 there were 81,000 barrels throughput.

MR. HARVIE: OPERATIONS: Southeast Saskatchewan produces both light and medium crude oil. Light crude comes from the areas of Steelman, Frobisher, Alida, Glen Ewen, Carnduff, Oxbow, Nottingham, Ingoldsby, Rosebank and Arlington. Medium crude comes from the areas of West Kingsford, Midale and South Ingoldsby. Both light and medium crude are produced in the Weyburn area. Sulphur content, which is higher in medium crude, ranges from 1% to 3%.

All medium crude is purchased by Great Northern Oil Purchasing Company and is shipped to the following refineries in the Northern part of the United States:



<u>COMPANY</u>	<u>LOCATION</u>	<u>REFINERY CAP. (BARRELS PER DAY)</u>	<u>PRESENT PURCHASES</u>
Lake Superior Refinery Co.	Wisconsin	16,500	5,000
Great Northern Oil Company	Minnesota	30,000	8,116
International Refinery Inc.	Minnesota	12,000	3,170
Northwestern Refinery Co.	Minnesota	16,000	nil
TOTAL		74,500	16,286

THE CHAIRMAN: Could we stop for a moment?
We know what Great Northern Oil Company refinery in
Minnesota ---

MR. MacPHERSON: Mr. Sandlin's Company.

THE CHAIRMAN: And the Lake Superior Re-
finery Company is owned by whom?

MR. HARVIE: I am sorry, I cannot answer
that question.

THE CHAIRMAN: Is it owned by any of your
shareholders?

MR. HARVIE: I believe it is a private,
independent refining company.

THE CHAIRMAN: With no shareholding in
your company?

MR. MacPHERSON: No, sir.

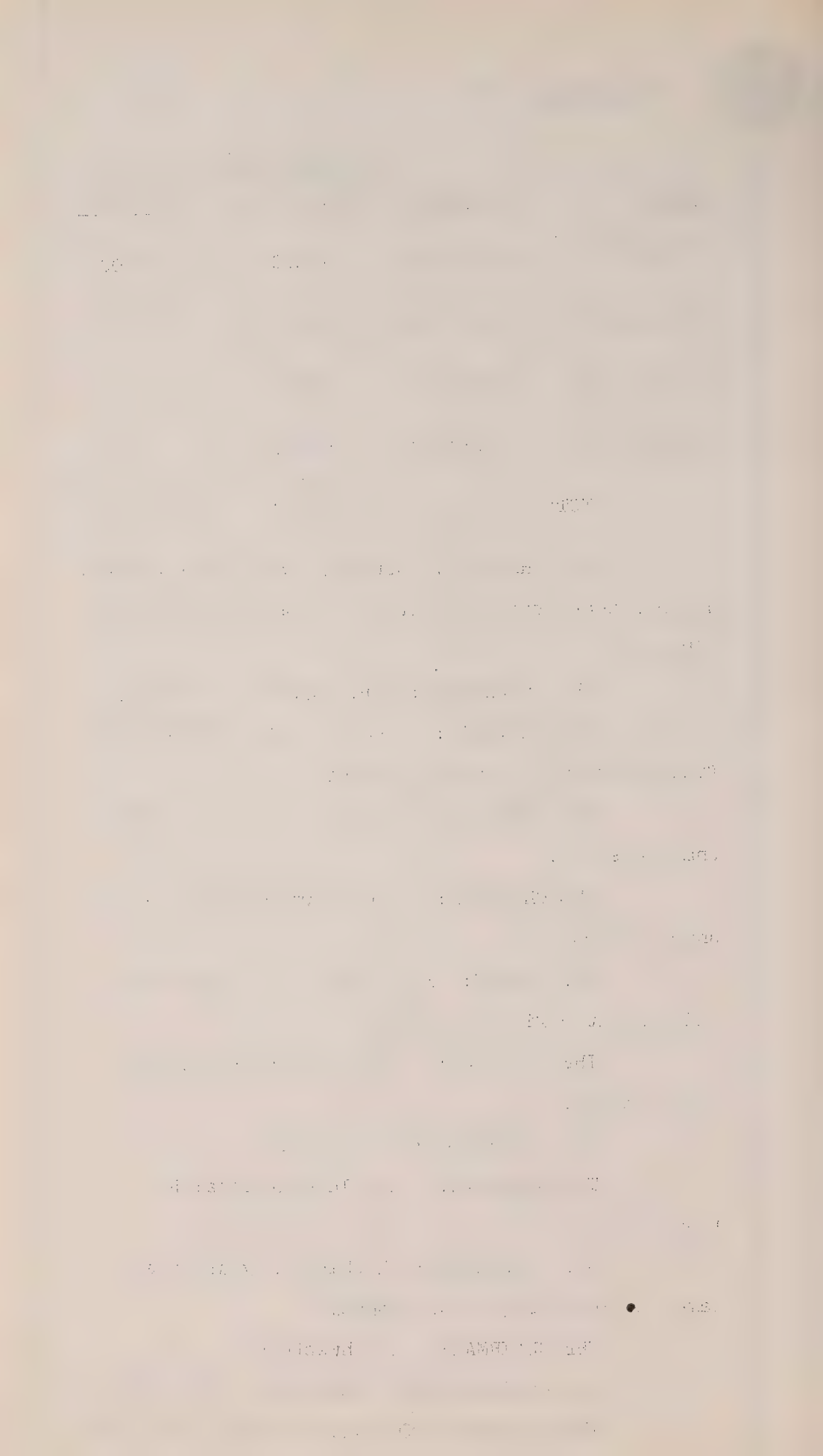
THE CHAIRMAN: And International Re-
finery?

MR. MacPHERSON: I think they are the
same, no interest in our company.

THE CHAIRMAN: Northwestern?

MR. MacPHERSON: Completely independent.

THE CHAIRMAN: The only refinery you ship





to in the United States is the one with Woodley Canadian Oil?

MR. MacPHERSON: They ship to Lake Superior and International as well.

THE CHAIRMAN: Yes, but they are not shareholders.

MR. MacPHERSON: That is right. Great Northern is the only one with any community interest shareholder-wise.

THE CHAIRMAN: Let us clear up something. My understanding is an export permit is required for the export of crude oil. Let us start first with the Province. Is that correct?

MR. TYERMAN: None required from the Province.

THE CHAIRMAN: Outside of Canada?

MR. TYERMAN: Yes, it is required.

THE CHAIRMAN: From whom is the export permit obtained?

MR. TYERMAN: The Department of Trade and Commerce, I believe.

MR. MacPHERSON: Yes, I think it is Trade and Commerce.

THE CHAIRMAN: Does it go to the Board of Transport Commissioners?

MR. TYERMAN: No, the application is direct to the Department.

THE CHAIRMAN: Trade and Commerce?

MR. TYERMAN: Yes.

THE CHAIRMAN: What kind of terms are put into such a permit? Is it for a specified quantity of oil, barrels per day or annum?

MR. TYERMAN: Barrels per annum, sir.



THE CHAIRMAN: It is maximum?

MR. TYERMAN: Yes.

THE CHAIRMAN: Not minimum?

MR. TYERMAN: No.

THE CHAIRMAN: No other conditions attached to such a permit?

MR. TYERMAN: There are some other conditions, yes, sir.

THE CHAIRMAN: Have you got such a permit in Regina physically?

MR. TYERMAN: A permit that we could look at?

THE CHAIRMAN: Yes.

MR. TYERMAN: Yes. This Company requires no permit. It does not export oil. The oil is exported by the owners of the oil.

THE CHAIRMAN: I suppose I should get that answer directly from the actual owner. How are we going to get that?

MR. TYERMAN: The two exporters I know of are Imperial Oil and Great Northern Oil Purchasing Company.

THE CHAIRMAN: Mr. MacPherson, you are counsel for Great Northern?

MR. MacPHERSON: Yes.

THE CHAIRMAN: Could you get a copy of their permit and file it with the Commission?

MR. MacPHERSON: I would be glad to do it.

THE CHAIRMAN: I want the record completed.

MR. MacPHERSON: We will get that for you.

MR. HARVIE: All light crude is purchased by Imperial Oil Limited for Canadian markets and is shipped to the following refineries:



<u>COMPANY</u>	<u>LOCATION</u>	<u>REFINERY CAPACITY (BARRELS PER DAY)</u>	<u>PRESENT PURCHASES</u>
Imperial Oil Limited	Winnipeg, Man.	17,500	21,807 *
North Star Oil Ltd.	Winnipeg, Man.	12,000	2,687
Imperial Oil Limited	Sarnia, Ont.	80,000	30,483
B.A. Clarkson	Toronto, Ont.	61,500	nil
Regent Refining	Pt. Credit, Ont.	20,000	5,890
Canadian Oil Co. Limited	Corunna, Ont.	<u>30,000</u>	<u>6,330</u>
TOTAL		209,000	64,503

*Apparently building crude oil inventory.

THE CHAIRMAN: Present purchases, as of what date would those be compiled, the ones going to the United States and the ones going to Canada?

MR. HARVIE: I think those were February purchases. These are fairly good averages.

THE CHAIRMAN: Average per diem purchase during February?

MR. HARVIE: Yes.

MR. COMMISSIONER HOWLAND: When Imperial Oil purchases light oil, do they purchase at the well-head?

MR. HARVIE: Yes, at the wellhead from the producer.

Westspur owns both gathering and trunk line systems, whereas Producers only owns a gathering system. The operations of the companies are so arranged that the gathering systems are considered to be separate from the trunk line system.



The prime function of a crude oil gathering system is to gather or accept oil for a crude oil purchaser or shipper's account at the lease tanks of producing oil companies and to transport this crude to a trunk line system. The gathering system should be operated in a manner that will keep lease tankage at a minimum without restricting the continuous operation of the producing wells.

A trunk line transports the crude supplied by the gathering systems either as a batch of one type of crude or as a common or mixed stream of several crudes. Deliveries are made either to a refinery or to an adjoining trunk line carrier. Westspur, as previously noted, delivers all of its crude to Inter-provincial Pipe Line tankage at Cromer, Manitoba. In order to properly schedule crude oil movements a trunk line is required to have terminal storage facilities and in the case of the Westspur system these are located at Midale, Steelman, Frobisher and Alida. Main line pumps are located at these points as well as facilities for unloading crude oil from trucks.

As both light and medium crude is delivered to the trunk line terminal at Midale a batching method is used to move the crude through the single 12" line to the Steelman terminal. From Steelman to Cromer the 12" line is used exclusively for medium crude while the 16" line is reserved for light crude.

THE CHAIRMAN: Could you help us, at least me anyway? How do you actually put two batches into the pipeline? What do you put between it? Is it called a slug or plug, and what does it consist of?



MR. MacPHERSON: We use nothing between batches whatsoever. We use a gravity check-out system to determine where the batch arrives.

THE CHAIRMAN: They don't mix?

MR. MacPHERSON: Very slightly. In the cases of the **type of crude** we handle it is not a serious mixing problem at all. Where you have a products line you would have to be more careful with the products you put in contact with each other and have a definite schedule. With crude oils it is relatively easy to follow one batch with the other.

THE CHAIRMAN: There would be a slight blending at the tail end of one batch with the head of the other one?

MR. MacPHERSON: That is right, sir. Occasionally it is the practice to use pigs in between, some sort of pig that actually does mark.

THE CHAIRMAN: That is what I was getting at with the slugs. It is called pig?

MR. MacPHERSON: A pig. That is a rubber pig whereby one product pushes it along and makes a distinct break. As soon as it reaches a certain point another valve is opened and the product is passed through a different tank. Another method is they put in very light radioactive mixer of some sort that is picked up by a checker and the valves are opened. Those are problems more related to products lines than crude lines.

THE CHAIRMAN: I see, thank you.

MR. HARVIE: TAXATION: Income Tax:
The provisions of the Income Tax Act R.S. 1952 cap. 148 as amended, permit a capital cost allowance on



pipelines of a maximum of 6% calculated on the diminishing balance system as a deduction from income unless, in the case of a pipeline for oil or natural gas, the Minister, in collaboration with the Minister of Mines and Technical Surveys, is satisfied that the main source of supply for the business for which the pipeline was acquired is likely to be exhausted within 15 years. Presumably such pipelines, not being specifically listed, are subject to the general rate of 20%.

The Income Tax Act does not permit pipeline companies to deduct from income a capital cost allowance on rights-of-way. As at December 31, 1957, the companies have approximately \$250,000 invested in rights-of-way which they should be allowed to deduct from income over a reasonable period by way of a capital cost allowance.

A Company's investment in gathering systems is placed in the same class for capital cost allowance purposes as is investment in a trunk line, and the gathering systems are treated as a whole rather than by conservation areas.

The useful life of a pipeline depends on the life of the field it serves.

It is submitted that rights-of-way and easements should be included under the general heading of "pipelines" and subject to capital cost allowance.

It is submitted that for capital cost allowance purposes investment in trunk lines and in gathering lines should be considered separately. Provision is made in the Uniform Code of Accounts



issued by the Board of Transport Commissioners, for segregating investment in this manner.

It is submitted that in determining the rate of capital cost allowance on investment in pipelines gathering oil from fields consideration should be given to the life of the individual fields served.

SECTION II: The Corporate powers of the Two Companies: The Parent company, Producers, is incorporated under the laws of the Province of Saskatchewan, and the subsidiary company, Westspur, is incorporated by Special Act of Parliament of the Dominion of Canada. Their corporate structure and powers are considered in Appendix 4, which also lists officers and directors.



FEDERAL AND PROVINCIAL JURISDICTION

The Westspur system consisting of the trunk line from Midale in Saskatchewan to Cromer in Manitoba, which is approximately 100 miles long, and the gathering systems constructed and operated by Westspur have been constructed and are operated under the authority from time to time granted by the Board of Transport Commissioners under the Pipe Lines Act of Canada.

In 1955 application was made by three companies, one of which was Westspur, to the Board of Transport Commissioners for leave to construct a pipe line from Midale to Cromer, together with related gathering facilities. These three applications were heard together and the Board of Transport Commissioners rendered its decision in favour of Westspur. In his reasons for Judgment, dated October 13, 1955, Kearney, J., Chief Commissioner, included the following findings:

"Much evidence was given as to what each proposed undertaking in fact is, the manner in which it is to be carried on, and the physical characteristics of the project.

" Having regard to that evidence and the terms of the Special Acts of the Applicants, we find that in each case the gathering lines are part of the proposed interprovincial or extra-provincial pipe line and that the entire line comes within the above quoted words of Section 92 (10) (a) (i.e. of the British North America Act 1867) 'other works and undertakings connecting the province with



"any other or others of the provinces, or
"extending beyond the limits of the province'
"and consequently is subject to the legislative
"authority of the Parliament of Canada."

Subsequently, in 1956, Westspur applied to the Board of Transport Commissioners again, pursuant to Section 12 of The Pipe Lines Act of Canada, for leave to construct a pipe line from a point in the vicinity of Weyburn, Saskatchewan to its existing Midale Terminal, as an extension of its Company pipe line. The application was dismissed and in his Judgment the Assistant Chief Commissioner stated in part as follows:

" Counsel for Saskatchewan submitted that
"the system proposed by Westspur is really a
"gathering system and put forward the Province's
"position 'that all gathering pipe lines and
"feeder pipe lines wholly within the Province
"should be under provincial jurisdiction.'
"However, he also stated that the Province is
"not suggesting that this Board has not
"jurisdiction to grant Westspur's application
"but he submitted that this Board should not
"grant leave to Westspur to construct its
"proposed line under the circumstances, particularly as the provincial authority had
seen fit to grant the above mentioned permit
"to Trans-Prairie and the latter's line was
"actually being constructed at the date of the
"hearing of Westspur's application."

" Counsel for Westspur submitted that its
"proposed line would be in law and in fact an



"extension of Westspur's present interprovincial
"pipe line system and that there is no question
"that the Board has jurisdiction to grant the
"application."

" It is our opinion, and we so find, that the
"proposed pipe line system of Westspur, if it
"were constructed, would be in fact an extension of its present interprovincial company
"pipe line which was authorized by the previously mentioned Judgment and Order of this
"Board No. 87142, dated October 13, 1955, and
"that this Board has jurisdiction to grant the
"application."

In November, 1957, Westspur made application to the Board of Transport Commissioners to be allowed to sell the gathering portion of its company pipe line to Producers. In his submission counsel for Westspur urged that the first order of the Board of Transport Commissioners had to cover the complete project, not only as an interprovincial line but also the gathering lines, because at that time there was nothing else there. He urged that in the space of two years there had been a change in the character of the gathering lines and that the trunk line should be operated as an interprovincial line by Westspur in accordance with the provisions of the Pipe Lines Act of Canada and that the gathering lines should be operated by Producers. Evidence was given that all of the gathering lines which Westspur wished to sell to Producers were physically situated entirely within the Province of Saskatchewan;



that there was a difference in the operation of a gathering oil pipe line system and a trunk oil pipe line system in the sense that, as the throughput increases, the gathering lines will become a separate function of the whole system and the trunk line will become a carrier of all the oil that is delivered to it by the gathering systems. It was emphasized that the main concern of the trunk line was to keep the line running at the proper capacity and to get rid of the oil at the other end, whereas at that point the gathering system then becomes an organization which is primarily dealing with the producers that are customers. The Board of Transport Commissioners did not accept the fact of increased throughput as being decisive of the question whether the gathering lines were in fact local or an integral part of the Westspur interprovincial system.

The Board of Transport Commissioners found that Westspur's undertaking, including its gathering lines, is one and indivisible and that its gathering lines cannot be considered to be severable units to the extent that even with a change of operation and ownership, they would cease to be part of an extra-provincial lines. The Board found on the evidence before it that the gathering lines in question could not be held as a matter of law to be local in character, and that the proposed sale would not in fact change the character of Westspur's gathering lines and that they would, if the application were granted, remain part of an extra-provincial pipe line. In reaching this decision, the Board



of Transport Commissioners considered, amongst other cases, Luscar Collieries Ltd. v McDonald (1927) A.C. 925, in which it was held that a provincial railway, branching from a line which branched from the Canadian National Railway, both branches being operated by the Canadian National Railway under agreements, brought the provincial railway within the exclusive jurisdiction of the Dominion Parliament under Paragraph (a) of Head 10 of Section 92 of the British North America Act of 1867. Head 10 (a) of Section 92 which enumerates certain classes of subjects excepted from those assigned exclusively to the legislature of the provinces, is as follows:

"10. Local Works and Undertakings other than such as are of the following classes:

(a) Lines of Steam or other ships, Railways, Canals, Telegraphs, and other Works and Undertakings connecting the Province with any other or others of the Province, or extending beyond the Limits of the Province;"

The Board of Transport Commissioners also held that the language of Section 10 A of the Pipe Lines Act of Canada plainly and unequivocally prohibits Producers from operating the lines in question since it is a provincial company and not a Special Act Company.

It is respectfully submitted that the law as it is does not exclude the exercise by a province of jurisdiction to permit a pipe line company operating under the jurisdiction of that province from joining its pipe line with and delivering the oil



which it carries to, a pipe line system which is operated under the jurisdiction of the Federal Government.

However, the division between Federal and Provincial spheres of jurisdiction over pipe lines, clear-cut though it may seem to be when each jurisdiction is considered separately, in practice appears to possess a penumbra of duplication and uncertainty which is the cause of some difficulty to Producers and Westspur in attempting to plan for the future. This difficulty could be removed by an amendment to the existing legislation in order to define clearly the areas of jurisdiction to be exercised by the Federal and Provincial Authorities.

The statutory provisions relating to the jurisdiction of Federal and Provincial Authorities are reviewed in Appendix Number 5.

THE CHAIRMAN: Could we pause here for a moment? Mr. MacPherson, if this reasoning applied by the Board of Transport Commissioners in this particular application were applied, let us say, to take an example, on a gas trunk line originating here -- and while we are not going to draw any conclusions, let us use it as an example for discussion, for a moment, while you are here -- take Trans-Canada's Gas Line: it gets into Ontario and you have take-offs from that line by a provincially incorporated company in Ontario. Does it not follow from that decision that the jurisdiction of the Board of Transport Commissioners, being once attached to Trans-Canada Pipe Lines, would go right straight through the pipeline that draws gas from Trans-



Canada for distribution in a locality in Northern Ontario?

MR. MacPHERSON: We can see all sorts of difficulties with Trans-Canada. For instance, there may be difficulties in Alberta with the Alberta Trunk Line and all sorts of problems, and that is why the division was made here.

Having regard to the situation in Saskatchewan, the Department of Mineral Resources had built up a very efficient Department and they were in touch with the local situation, and it seemed ridiculous, as we thought, to run to Ottawa in connection with every extension, although, following it to its logical conclusion, the decision of the Board of Transport Commissioners goes as far as I am afraid you have suggested.

THE CHAIRMAN: Then would it not go right through to the burner in the locality?

MR. MacPHERSON: Yes, I think so.

THE CHAIRMAN: And, following through, again, it would have jurisdiction over the tariffs being charged to the consumer of gas in a municipality?

MR. MacPHERSON: I can see an absolute interference with the local authority, and that is the extent to which the decision actually goes; and we say that would be most disruptive and must be corrected and should be corrected.

THE CHAIRMAN: Well, it would bring us, in this country, straight into the same chaotic condition that they are in south of the line by reason of that very thing.

MR. MacPHERSON: That's right; and we



feel, for instance, that so far as oil is concerned, you are going to be carried right back to the well-head, and we want to have some control locally over the situation there.

THE CHAIRMAN: You cannot differentiate the facts that I gave you from the Board of Transport Commissioners in this case?

MR. MacPHERSON: No. As a matter of fact, I can't, and that is the position we took before the Board of Transport Commissioners and, in fairness to the Department of Justice, I must say that Mr. Jacket did not seriously question the position we took but said to the Board of Transport Commissioners, "This is a question of fact for you to determine and I will leave it to you", and the Board of Transport Commissioners then made the Order.

Having been seized with the authority, they thought they had to continue with the authority, and I think the significance of it is one that has alarmed provincial authorities.

THE CHAIRMAN: Was there no appeal from that decision? Was there any reason why it would not have been appealed to the Supreme Court of Canada?

MR. MacPHERSON: No, it might have been appealed; but there was the question of this Commission being set up, at the same time and we felt, rather than to appeal and risk an adverse decision from the Supreme Court -- the Luscar case, of course, went quite a distance and it may mean that there will have to be an amendment to the Pipe Line Act or other legislation, but they followed the



Luscar case very closely and the Luscar case, in the first instance, went quite a distance, although it has been modified since by other cases. But, at the same time, knowing that this Commission was set up to deal with these matters, we felt probably we would bring it here and indicate what the problem was and how the problem affected us, and to indicate that we felt we were presenting a situation that may be common to all other provinces. I am sure the Province of Alberta in particular would be in line with our view, and the Provinces of Ontario and Manitoba -- all the provinces.

We felt, rather than risk an appeal at the time, under the circumstances, it would be a matter of only making our position much more difficult to appeal and lose, so we felt that we should set the matter frankly before this Commission and indicate what the situation was so that the appropriate amendment might be made.

THE CHAIRMAN: Thank you.

MR. HARVIE: FINANCIAL STRUCTURE

(a) WESTSPUR PIPE LINE COMPANY:

It was estimated that \$6,400,000 was required for the construction of Westspur's system (including provision for working capital). This sum was raised by the sale of \$4,800,000 of First Mortgage Bonds and by the sale at \$10.00 of 160,004 shares to producing oil companies. Later 4,800 shares were sold at \$12.50 to another producing oil company which wished to participate. After the parent company was formed further capital was obtained partly from earnings retained and partly



from loans made by the parent company. Figures showing the capital structure of Westspur as at December 31, 1957 are given in Appendix Number 6 together with lists of shareholders as at December 31, 1956 and December 31, 1957.

(b) PRODUCERS PIPELINES LTD.:

On March 8, 1957, Producers acquired 164,772 of the 164,804 outstanding shares of Westspur in exchange for shares of Producers issued at par. An offering at \$10.00 of 16,443 common shares and 180,874 preference shares was made to the shareholders for cash. The sale of shares provided \$1,973,170; bank loans provided the balance of the funds required.

Figures showing the capital structure of Producers as at December 31, 1957, are shown in Appendix #7 together with a list of shareholders as at December 31, 1957.

(Note: The Officers and Directors of the two companies are listed in Appendix #4).

We now come to the Appendix. I wonder if you would care to have me read the Appendix.

MR. MACPHERSON: The tariffs are next, if you want some discussion of that, Mr. Chairman. The actual tariffs that have been published and are in force are next.

THE CHAIRMAN: I do not think, Mr. MacPherson, that we need to discuss the tariffs. I notice that, by and large, the capital structure is about on a 65-70% funded debt basis, is that right?

MR. HARVIE: Yes. We keep it at 75% and 25%; that is the figure we shoot at.



THE CHAIRMAN: Westspur has hardly reached that.

MR. HARVIE: No, not at this point.

THE CHAIRMAN: That is about the pattern you aim at?

MR. HARVIE: That is correct.

THE CHAIRMAN: And you said, at one point, that the life of the line was only equal to the life of the field, and I can understand that, but what depreciation rate do you use?

MR. HARVIE: For income tax purposes, 6%, diminishing balance.

THE CHAIRMAN: So you get it fully depreciated in roughly how many years, on that basis?

MR. HARVIE: It is down to about 40 years, is it not?

MR. RICHARDS: For income tax purposes on the diminishing basis, we could run over 50 years and still not have it depreciated.

THE CHAIRMAN: That might be advantageous and it might not. It is hard to say.

MR. HARVIE: Appendix 2 is just the map of the pipeline system.

Appendix 3 is the summary of pipe installed and the table, I think, is self-explanatory.

Appendix 4 deals in a little more detail with the corporate structure and powers of the two companies. Would you care to have me read that?

THE CHAIRMAN: No, thank you.

MR. HARVIE: Appendix 5 deals with the problem of federal jurisdiction and quotes from the



Act.

MR. MacPHERSON: Do you wish that read, Mr. Chairman?

THE CHAIRMAN: No, I think the Commission has got to do its own homework, Mr. MacPherson. That is up to us.

MR. MacPHERSON: This is just some of the homework we thought we would like to have you have.

MR. HARVIE: Appendix 6 is the Westspur capital structure as at December 31, 1957 and, on page 2 of that Appendix, a list of shareholders.

MR. COMMISSIONER LADNER: The short term loans: are those from banks?

MR. HARVIE: That is from the parent company.

As I say, Appendix 6 continues with a list of shareholders, Westspur Pipe Line Company and, as at December 31, 1957, Producers Pipelines owned all except the directors' qualifying shares.

Appendix 7 is the capital structure of Producers Pipelines Ltd. as of December 31, 1957, page 2 being a list of the shareholders as of December 31, 1957.

That completes the submission.

MR. MacPHERSON: As a matter of information, it might be stated, Mr. Chairman, that when these applications were made to the Board of Transport Commissioners in the Fall of 1955, there were 250 wells being served in the area and today there are over 1,000, so as between the late Fall of 1955 and the present the number of producing wells has increased from 250 to over 1,000 in the areas being served, all of which, from a jurisdictional



point of view, indicates the difficulty in the matter of gathering lines as is arising, and we hope and trust the Commission will find this is the reasonable attitude that we have taken as, in fact, supporting the same position which the Province took through Mr. Brockelbank.

THE CHAIRMAN: Yes, it is the same.

We shall have a ten-minute break.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearing.

Mr. MacPherson, have you given any thought as to how the existing legislation should be amended to rectify this jurisdictional problem or to cause it to cease being a problem?

MR. MACPHERSON: Yes, I think that probably it would be by an amendment to the Dominion Pipe Lines Act. I am not in a position to say to you that I would want to draft the amendment at the moment, but I think it should probably be in the Pipe Lines Act, to make it clear that the Dominion is not -- it was understandable, in the first place, that when the first Order was made, there was nothing in that area but oil wells, no branchlines, and I can understand it then, that there should be an Order providing for the trunk line and such trunk lines as were necessary, because when an applicant made an application they had to file plans showing what they proposed to do.

But the time has come, I think, when the Province has set up a competent authority to



deal with it and certainly the trunk line, I think it is admitted, is the function of the Dominion, not the branch lines or spur lines that are wholly within the province and simply serve in that connection, and it makes it not only embarrassing but almost impossible for an operator to have to carry on in a rapidly developing field if you have to run to Ottawa all the time in connection with extensions and so on.

I think it would be by way of an amendment to the Dominion Pipe Lines Act. We have not tried to spell out the solution more clearly than that, but if it would help, we would be glad to suggest anything that we might to the Commission.

THE CHAIRMAN: I think it would be helpful, because I can see considerable difficulty and what bothers me is how would you define a branch line or gathering line and how would you prevent an inter-provincial line, a clear case of a trunk line, avoiding Dominion jurisdiction by incorporating a branch line within the Province and saying, "This is provincial".

MR. MacPHERSON: Well, it is going to take some careful draftsmanship, I agree, but we feel the situation is one that needs correcting in the worst possible way and, if we can assist, we would file with the Commission . . .

MR. COMMISSIONER LADNER: Are the lines of demarcation indicated in the Luscar case?

MR. MacPHERSON: Well, the Luscar case goes off on another point completely.

MR. COMMISSIONER LADNER: I have not read



it.

MR. MacPHERSON: Yes, it is a decision having to do with railways, and it was the decision that the Board of Transport Commissioners chose to follow, a decision of quite a few years ago when conditions were quite different to what they are now. We think that, probably, to clear the situation up, there should be appropriate Federal amendments to the legislation, and we will try to draft something, if the Commission so wishes.

THE CHAIRMAN: Very good. Thank you.

Mr. Patterson, have you anything?

MR. PATTERSON: No, thank you, Mr. Chairman.

THE CHAIRMAN: Well, thank you very, very much, Mr. MacPherson, Mr. Harvie and your colleagues, for giving us this brief, which has emphasized a point that had already been raised with the Commission. We appreciate your helpfulness.

MR. MacPHERSON: We thank the Commission for having listened to us and we want you to feel, as we feel, that there is a real problem involved here that concerns, in a very real way, the development of the resources of the country.

THE CHAIRMAN: Thank you very much, Mr. MacPherson.



Submission of

CONSOLIDATED MINING AND SMELTING
COMPANY OF CANADA LIMITED

APPEARANCES:

- | | |
|--------------------|--|
| Mr. Cecil Frere | - General Counsel for Consolidated Mining and Smelting Company of Canada Limited |
| Mr. R. G. Anderson | - President and General Manager of the West Kootenay Power and Light Company Limited |
| Mr. W. Wadeson | - Hydrologist, West Kootenay Power and Light Company Limited |

THE CHAIRMAN: Mr. Patterson?

MR. PATTERSON: Mr. Chairman, the next submission is to be made by the Consolidated Mining and Smelting Company of Canada Limited. I ask that the submission be marked as Exhibit R-17-2.

---EXHIBIT NO. R-17-2: Submission of the Consolidated Mining and Smelting Company of Canada Limited.

MR. PATTERSON: I would ask Mr. Frere to introduce himself and his colleagues to the Commission before commencing to read.

MR. FRERE: Mr. Chairman, my name is Cecil Frere. I am General Solicitor for the Consolidated Mining and Smelting Company of Canada Limited and, associated with me in the presentation of our submission, is Mr. R. G. Anderson, President and



General Manager of the West Kootenay Power and Light Company Limited and Mr. W. Wadeson, a Hydrologist of the same company.

I may explain that the West Kootenay Power and Light Company Limited operates the five power plants of the Consolidated Mining and Smelting Company of Canada Limited as its agent.

Should I proceed with the submission?

THE CHAIRMAN: Yes, thank you, Mr. Frere.

MR. FRERE: I may say, Mr. Chairman, that following the presentation of our submission we have some maps and graphs which we think would be of interest to the Commission and they, with your permission, will be explained by Mr. Anderson and Mr. Wadeson.

THE CHAIRMAN: Thank you.



MR. FRERE: Facts regarding the Operations
of the Company related to the Production and Con-
sumption of Energy Resources

The Consolidated Mining and Smelting Company of Canada Limited is a corporation incorporated under the Companies Act of Canada. The Company owns or holds an interest in various mining properties in New Brunswick, Ontario, Quebec, Saskatchewan, Northwest Territories and British Columbia, and is actively engaged in exploration for mining properties throughout Canada. The Company also owns chemical and fertilizer plants at Calgary, Alberta and at Kimberley and Trail, British Columbia, and a non-ferrous smelter and refineries at Trail.

During the year 1956, the Company produced the following quantities of products:

Lead	149,262 tons
Zinc	1,3,041 tons
Silver	11,583,530 ozs.
Cadmium	884 tons
Bismuth	78 tons
Gold	97,428 ozs.
Tin	328 tons
Antimony	1,131 tons
Chemical Fertilizer (solid)	673,044 tons
Chemical Fertilizer (liquid)	20,449 tons

Its total sales grossed \$135,732,479. The Company incurred income and provincial mining taxes for that year amounting to \$15,873,000 and paid real and personal property taxes in British Columbia alone in the year 1956 amounting to nearly \$1,500,000.

About 30% of the Company's sales of metals are made in the United States, and nearly 40% in other export areas. Also, about 60% of its fertilizer products are marketed in the United States, and about 25% are exported elsewhere.

The Company owns four power plants on the



Kootenay River and one power plant on the Pend-d'Oreille River, in British Columbia. A subsidiary, the West Kootenay Power and Light Company, Limited, also operates a plant on the Kootenay River for the sale of electric power to the public. The total generator capacity of these plants is as follows:

Kootenay River

Corra Linn	46,000 KW
Upper Bonnington	58,000 KW
Lower Bonnington (owned by West Kootenay)	41,000 KW
South Slocan	53,000 KW
Brilliant	90,000 KW

Pend-d'Oreille River

Waneta	180,000 KW
(ultimate	360,000 KW)

The Company also has a power site on the Pend-d'Oreille River, known as the "Seven-Mile" site, which has not yet been developed, but it is at present under engineering investigation. The potential output of the site is 360,000 KW.

Storage water for the regulation of the power plants on the Kootenay River is maintained in Kootenay Lake, in British Columbia, from August to April, after the high water of the spring and early summer. Because the level of the Kootenay River in the United States may thereby be maintained at a slightly higher elevation than normal, an order of approval had to be obtained from the International Joint Commission in 1938, which Order is still in effect. The Waneta plant on the Pend-d'Oreille River, is a run-of-the-river plant, whose water supply varies with storage regulation upstream in the United States.

The Company produces and consumes



annually more than two billion kilowatt hours of electrical energy in the operation of its mines at Kimberley, Bluebell and Salmo, of its smelter and refineries at Trail, and of its chemical fertilizer plants at Kimberley and Trail. This consumption of electrical energy is practically the same as the quantity consumed in the greater Vancouver area. Other fuels consumed in the Company's plants at Trail and Kimberley exceed 150,000 tons of coal, 100,000 tons of coke, and 2,000,000 gallons of fuel oil annually.

The Company also consumes annually, at its chemical fertilizer plant at Calgary, as a raw material, over four billion cubic feet of natural gas.

Submissions

The Company submits that the Royal Commission on Energy should recommend:

1. That the Exportation of Power and Fluids and Importation of Gas Act be amended by clarifying the definition of "export" in Section 2 of the Act, so that it does not include the interchange of power, that is, the receipt and return of power reciprocally with no monetary payment involved, between a power system in Canada and a power system in the United States.
2. That, in proper instances and with adequate contractual arrangements for the protection of Canadian interests, the export of power be permitted.
3. That the duty imposed on electric power exported from Canada be withdrawn, since no



export duties are imposed on coal, oil or natural gas.

4. That, even assuming it would be within the jurisdiction of a national energy board to administer certain aspects of energy policy, such a board should act in an advisory capacity only and should not exert any influence or authority that would in any way detract from the rights of Provincial Governments to deal with Provincial natural resources and that the International River Improvements Act should not be administered in such manner as to detract from those rights.

Statement in Support of Submissions

Submission No. 1

The word "power" is used in this submission in its non-technical sense, and where the context requires means or includes energy.

In support of the first submission, that the definition of "export" in Section 2 of the Exportation of Power and Fluids and Importation of Gas Act be clarified so as not to include the interchange of power between power systems in Canada and the United States, the Company offers the following explanation regarding the operation of its power system in British Columbia (which system, for the purposes of this submission, includes the power plant of the West Kootenay Power and Light Company, Limited):

The Pend-d'Oreille River on which Cominco's Waneta plant is situated has an average annual flow of about 18,000,000 acre feet at the International Boundary near Nelway, British Columbia, where it enters Canada.

THE CHAIRMAN: What do you mean by acres

[illegible]



of water?

MR. FRERE: The volume of water contained in an area one foot deep, for storage. It is a figure used as a storage figure and it also can be converted into cubic feet per second; 18 million cubic feet is the flow for 365 days a year which would be something in the order of 24,000 cubic feet per second daily.

MR. PATTERSON: Mr. Frere, would this be a convenient time, when you are reading, to have someone show on the map where this Pend-d'Oreille River and the other places lie or, did you propose to do that as a review? Possibly Mr. Anderson could point out where the Pend-d'Oreille River lies and the Kootenay River?

THE CHAIRMAN: I think it would be better to do it at this time.

---(Mr. Anderson explains map.)

THE CHAIRMAN: That 15-mile stretch of the Pend-d'Oreille River is in Canada.

MR. ANDERSON: Yes, it is in Canada. From that point it falls more than 400' in 15 miles before joining the Columbia River at Waneta, B.C. The river in Canada is confined to a steep-walled, narrow, rock canyon, which precludes the construction of reservoirs for regulating the wide variations in seasonal flow. The daily discharge at the International Boundary has varied, historically, from a low of 2,500 cfs. to a maximum of 171,300 cfs., a ratio of approximately 1 to 70,



and uniform power production from the Waneta plant is impossible without a large measure of upstream regulation. In recent years, the Federal Government of the United States and a private utility company have constructed three reservoirs upstream in the United States on the Pend-d'Oreille River or its tributaries, with a total capacity of more than 5,000,000 acre feet. This storage in the United States improved winter flow conditions on the Pend-d'Oreille River in Canada to the point where the Company found it economical to begin development of the stream with the 210' head plant at Waneta, B.C. A power plant was constructed in 1952, with settings for four generators, two of which have been installed and are in operation. At present the flow in the Pend-d'Oreille River is controlled entirely by U.S. interests for the benefit of the Northwest Power Pool. The Northwest Power Pool comprises the Bonneville Power Administration, which is a United States Federal Agency, and most of the power companies in the north-western area of the United States, known as the Pacific North-west. During the U.S. storage release season, regulated daily flows at the Waneta Plant have been as low as 4,000 cfs. and can be expected to continue to vary within a range of 4,000 cfs. to 36,000 cfs. Each of the two generating units installed at Waneta required 6,000 cfs. of water for maximum output and the two additional units proposed for future installation



would have a similar hydraulic capacity. With the present installation at Waneta, it takes 12,000 cfs. for maximum output, and during short periods when the Pend-d'Oreille River flows are restricted below that amount, the Company uses surplus capacity available at its plants on the Kootenay River, to compensate for the deficiency at Waneta. However, it requires the entire surplus presently available from the Kootenay River plants to compensate for occasional low output from the first two units at Waneta, and if the third and fourth units were installed, an outside source of supplementary energy would be necessary in order to produce a uniform, marketable power supply. A source of supplementary energy is also requisite for the development of the potential 360,000 KW from the remaining 200' of head at the Seven-Mile site on the Pend-d'Oreille River.



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Extensive studies were made by the Company, from which it was concluded that the only practicable source of that supplementary energy would be the Northwest Power Pool. Essentially, the reason for this conclusion is that the normal operation of the Power Pool is to conserve the flows in tributary streams, such as the Pend-d'Oreille, at such times as there is a surplus of power available from the plants on the main stem of the Columbia River and, conversely, when the main stem flows are deficient, tributary storage is released to meet the power demand by increasing production at both the tributary and the main stem plants. It follows logically that the periods of low output on the Canadian section of the Pend-d'Oreille River coincide with surplus generation at U.S. plants on the main stem of the Columbia River, which would make it possible for a Canadian plant to borrow energy at that period of low output. Similarly, when the situation is reversed, and the main-stem U.S. plants have an energy deficiency, a Canadian plant on the tributary would be in a surplus position by reason of the storage releases, and would thus be able to repay the borrowed energy. Until the physical facilities and enabling legislation are provided to permit this international interchange of surplus energy, it is uneconomic for the Company to instal the two additional generators at Waneta or to proceed with the development of the Seven-Mile site. Thus, one of the most important hydro-electric resources of Southern British Columbia lies undeveloped for lack of clarification of the national policy regarding



international interchange of energy.

The Company was informed in November, 1956 that the Department of Trade and Commerce of Canada interprets the Exportation of Power and Fluids and Importation of Gas Act as requiring a licence for interchange of power, just as though the export of power were involved. On the basis of this interpretation, the Company would not only have to obtain a licence to construct the facilities required in Canada for interconnection of its power system with that of the Northwest Power Pool, but would also have to obtain an annual licence to export power, and any agreement for interchange of power would be dependent upon the renewal of the export licence. The interchange must necessarily be permitted for a long term of years to allow for the amortization of the cost of construction. Neither the Company nor any member of the Northwest Power Pool should be expected to risk the substantial capital expenditure involved on the basis of an annual renewal of a licence for interchange, when such annual renewal is indefinite and at the option of the Federal Government.

The Company submits, therefore, that to meet a situation such as exists in the operation of its hydro-electric system, the Royal Commission on Energy should recommend that the definition of "export" in Section 2 of the Exportation of Power and Fluids and Importation of Gas Act be clarified so as not to include the interchange of power, or in the alternative, if a licence for the interchange of power is required, that the regulations



permit the granting of a licence for a period sufficient to amortize the capital costs of construction.

THE CHAIRMAN: May I stop you there for a moment? Do you really mean what you say when you speak of clarification of the National Policy regarding the international interchange of energy? You are really seeking a change in the regulation, are you not?

MR. FRERE: It could be clarification, sir. We think to the extent that the Exportation of Power and Fluids and Importation of Gas Act at the present time defines export in a certain way there may be a legal question as to whether or not export, as such, does really include interchange. To that extent we thought it was clarification. I agree with you what we really are asking for is an amendment to the Act.

THE CHAIRMAN: The power goes over the border. You export and you import.

MR. FRERE: There is where the legal point comes in. It certainly goes out of the country, but not with the idea it will stay out of the country.

THE CHAIRMAN: Do you get that same power back?

MR. FRERE: Not the same power. It is very similar to the situation where you may drive an automobile across the border, not with the idea you are exporting it into the United States because you are going to drive it back again. It is a fine difference.

THE CHAIRMAN: Yes. You have to bring the same automobile back with the same tire numbers on it.



MR. ANDERSON: We do anticipate this interchange would be balanced off annually at the end of the year. The net position would be zero.

THE CHAIRMAN: Yes, you would bring back the same kilowatt hours that you sent out.

MR. COMMISSIONER HARDY: Do you think it is completely practical to suggest you could always balance that off?

MR. ANDERSON: Yes, I think between the operating Companies you could balance it off. Someone might not want it back. You would have to balance it back.

MR. COMMISSIONER HARDY: Could you not get into some difficulty if you got out of balance? It would not be practical to ever get it back. You find yourself in a situation where you have exported power and it is not practical to get it back. That has happened internally in Alberta on an exchange of power.

MR. ANDERSON: Our position is subject to a fluctuating flow within the control of the Americans. I think the only reason we wish to borrow energy is to fill in the gap, as I can show you later. We would return it.

MR. COMMISSIONER LADNER: In that area there are no other Companies involved excepting yours?

MR. ANDERSON: No.

MR. COMMISSIONER LADNER: Does not the British Columbia Electric or British Columbia Power Commission develop their own on the Coast, exchange electricity?

MR. ANDERSON: They are doing that now.



I don't know to what extent. Their records are not available publicly. They have an interconnection with the Northwest Power Pool. I think it is quite correct they have been interchanging and also buying some energy.

MR. COMMISSIONER LADNER: You referred to regulations in the United States and the flow of water on the Pend-d'Oreille. Does that adversely affect the Waneta operation?

MR. ANDERSON: Yes.

MR. COMMISSIONER LADNER: In what way? I would be interested in that.

MR. ANDERSON: The regulation of flow.

MR. COMMISSIONER LADNER: Of the flow of water?

MR. ANDERSON: Yes. I could show that in another chart a little later.

MR. COMMISSIONER LADNER: The particulars don't matter. The fact is, it is regulated and it is regulated in the interests of the operators to the south of the United States, and in the course of that operation adversely affects your operation?

MR. ANDERSON: Yes.

MR. WADESON: Perhaps we should include the fact we are adversely affected during the early part of the season. We are beneficially affected later on in the season, so there is no gain.

MR. COMMISSIONER LADNER: If there were co-operative control, is it possible interests on both sides could benefit?

MR. WADESON: Yes, definitely.

MR. COMMISSIONER HOWLAND: Do you see a



net gain over the whole thing?

MR. WADESON: Yes.

MR. ANDERSON: If we have a gap in there where the flows are restricted, we have a period in which we have no firm power.

THE CHAIRMAN: You have an energy gain only. In what way does this situation compare with the situation at Niagara? Perhaps Dr. Hearn would explain the situation at Niagara.

DR. HEARN: Mr. Chairman, the situation at Niagara Falls, which has existed some 30-odd years, they get an annual licence from Ottawa to export surplus power and they pay the tax. There is no guarantee of a return back from the other side. We do buy it occasionally because there is a mutual agreement if there is an emergency, that they will give us as much as they can. That has occurred in certain cases.

Recently, about seven years ago, there was another interconnection made between the Ontario Hydro and Detroit Edison, and that interconnection is purely at will. There is no firm contract or obligation to deliver power either way on a firm contract. If there is a surplus on our side and they wish to take it, it is given to them on an hour's notice. It is an operating problem that does not have to go up to the high management to get approval.

That interchange is controlled exactly the same as Niagara from Ottawa, an annual permit. On the American side the Detroit Edison, in order for them to export, not coming under the Federal Power Commission, they had to get an Act of Congress,



which took them five years. It was about two days to get a permit from Ottawa.

That has not existed in Niagara Falls. They are under Federal Power jurisdiction. They had no objection to giving that. In that case Ontario pays for the power and pays the tax and they bring it the other way. When we bring it the other way we pay for it, and when we send to the United States they pay for it. There is no effort to balance out one way or the other. It is just a question of it is surplus. The other man wants it and he takes it.

In the case of an emergency it is a different set-up with delivery at Niagara Falls. When they lost the Hydro plants inside of two hours that power was replaced and that has been furnished to them ever since. That permit was obtained through Ottawa because after two months it was considered the emergency was over and the continuation of that supply of power to the Niagara-Mohawk did not come under the original agreement. We had to go to Ottawa to get permission to do it. It is at will, but nevertheless it is above the contract. We had no trouble getting the permit from Ottawa and they had no trouble getting the permit from the Federal Power Commission to receive it.

THE CHAIRMAN: May I ask a question?
Would there not have been considerable expenditure on the capital equipment to allow this interchange of power, even though only in emergency, and even though only on an annual basis?

DR. HEARN: I don't remember the figure



at Niagara Falls. I could give you the figures at Windsor and Detroit, their expenditures in order to interconnect the system and run them parallel involved somewhere around a million and a half to two million on either side. That was made by both parties without having any more assurance of a long-term contract other than a yearly permit we get from Ottawa.

We have never found we have had any trouble if Ottawa felt there was not an emergency in Canada where that power could have been used. For instance, a year ago or two years ago there was a shortage down in Quebec shortly after the time this accident occurred at Niagara Falls, and somebody objected to this power going across Niagara Falls saying it should have gone to Quebec to help out the Canadian side. It was investigated and the point was that when it was finally analysed what they were using at Niagara Falls could not be used in Quebec. We have never had any difficulty in working out problems. The Niagara transfer has been in existence now for 25 to 30 years. Started, I think, in the latter part of the 20's when there was a surplus.



THE CHAIRMAN: It seems to me, in this situation, Mr. Frere, you are suggesting an interchange of power where you build a plant on this side of the boundary and then the industry is built and expanded around that plant, or due to that, the same thing will happen south of the border, no matter how friendly you can switch to control of a foreign jurisdiction. Supposing the demand in the Pacific Northwest area for power increases, are they still going to allow that power to come back?

MR. FRERE: I think that would be a matter of contract, in the first place.

THE CHAIRMAN: And suppose it is broken, what do you do?

MR. FRERE: You just cut them off, as far as your supply is concerned. At that stage you might use the benefit of interchange, that is, on the export of power. The interchange of power is beneficial on both sides and I cannot visualize a case where they would want to stop the interchange of power any more than we would. In the export of power there are two factors; one, there is no reason why they should not live up to their contractual arrangements; in the second place, the amount of power we would be exporting would be insignificant with the total amount of power generated in the United States. The situation, to that extent, is different to the Detroit-Niagara situation. Mr. Anderson has those figures.

---(Mr. Anderson explains map).

MR. ANDERSON: Our position on the Pend-d'Orielle is as to what the storage is on the American side. We get periods in



here when the flow varies and we have it down to 4000 cubic feet per second varying up to 36,000 in the winter when you want more water so that we are in a position of having periods of time when we would be without foreign power. We had two generators put in. We are all right with the two generators presently put in but when we go to the third and fourth units, we have such variations in flow, about 12,000 feet per second, we could not put those generators in there unless we have some arrangement with the States to borrow power from the States; we would be without power and it would be uneconomic for us to put those units in. We are depending on flow from another country as to whether we can iron that out to suit our firm load and make installation or lose a Canadian resource because of the flow situation.

DR. HEARN: There is a limit to the amount that can be exported; that is limited on the American side to 10% of their capacity. I realize, Mr. Chairman, there is this difference; Detroit has a system that is entirely steep and Niagara has a system that is 75% steep. There is a difference here interconnected with the two pipeline systems. I do not think there is anything on the other line, such as Montana.

THE CHAIRMAN: On the other hand, if a policy of interchange of power were developed and permitted it might establish a precedent, it would establish a precedent across the country. In every situation there might be a time when Canada might want that within its own jurisdiction; conditions change.



MR. ANDERSON: In operating the plant we would not have control over the release and flow and never would have.

THE CHAIRMAN: Is the reverse situation true that we have control of storage in Canada?

MR. ANDERSON: We have control of storage in Kootenay Lake and the same at Pend-d'Orielle and we cannot object the other way. This map shows the 1957 daily on the Pend-d'Orielle. We have two units installed each requiring 6000 cubic feet or at that point 12,000 cubic feet per second. We are all right in January, February and March but around September, there is a period in there when the flow is restricted to 3,500, 4,000, which is not enough to operate one unit but having our own storage on Kootenay Lake and Kootenay River we can throw that in. When we come to install the third and fourth unit, you see how the picture changes. We have no control and there is no control over those foreign units. What we can do is to have this interchange and borrow power because at that stage when they are restricting their flow, they have a storage energy which we can borrow and at the period when we can release the flow we would return it because we would have enough capacity to return it. What we want to do is fill in these holes otherwise we cannot install these units and would lose the Canadian resource. The same applies to Pend-d'Orielle because we would only have part of the capacity; you can only use Kootenay Lake once for this kind of operation so that is even more essential. So, we have three-quarters of a



million horsepower that cannot be developed unless it can be arranged with some interchange arrangements.

MR. COMMISSIONER LADNER: May I inquire -- on page 8 you say: "Thus, one of the most important hydro-electric resources of Southern British Columbia lies undeveloped for lack of clarification of the national policy regarding international interchange of energy." One of your proposals is an amendment to the Exportation and Importation of Power Act and if the amendment you suggest there were put through, would you be in a position to proceed with the other two units or would you be disposed to do so?

MR. ANDERSON: Our load is growing; we expect, by our gross load curve now, to have to install a third unit probably in 1961, 1962. It takes all of two years to order and install a unit of that size and we must carry on some negotiations with the Americans to borrow some energy or arrange for some energy and there is an expenditure of some \$5 1/2 million involved for the interconnecting facilities and each generator, the third and fourth units, would cost in the order of \$4 1/2 million apiece, so you have \$9 million invested there without some insurance, some perpetuity or some methods of firming up these units. We could not do it on a year to year basis without knowing where we are at.

MR. COMMISSIONER LADNER: Your procedure would be, you suggested a moment ago, to have it by contract with someone on the American side. Who would you contract with to make the interchange



arrangement effective?

MR. ANDERSON: It would be with the members of the Northwest Power Pool.

MR. COMMISSIONER LADNER: That would be sufficient. Would you offer an opinion on this question: does a solution of your problem in respect of these matters we have just been discussing depend upon the general Columbia River development program and the negotiations with the United States, say, Lake Mica Dam; can they be separated?

MR. ANDERSON: Yes, we have this plant in and room for expansion and I think it is a problem quite apart from the Columbia Basin situation.

MR. COMMISSIONER LADNER: Do you think the Bonneville Power Administration would admit that?

MR. ANDERSON: We have had discussions with the Bonneville Power Administration over the past two years and they agree with the situation.

MR. COMMISSIONER LADNER: If this amendment were put through and some long-term arrangement established, do you think your company would be ready to proceed with the third unit?

MR. ANDERSON: Yes, on a load growth; we have to have a load for it and our load is really growing and no doubt some day we will have to have a consolidated unit.

THE CHAIRMAN: Have you ever applied for a permit under the Exportation and Importation Act?

MR. ANDERSON: Yes.

THE CHAIRMAN: And you were turned down?

MR. ANDERSON: Yes.

MR. COMMISSIONER LADNER: When was that



application?

MR. FRERE: Prior to 1955; around 1954.

MR. COMMISSIONER LADNER: There have been none in recent years?

MR. FRERE: Not within the last three or four years.

THE CHAIRMAN: Before we proceed with your brief, I wonder if it would not be wise to adjourn. This may get into some discussion and it may be better to have the discussion just when you read it. I think the thing to do would be for us to adjourn until 2 o'clock this afternoon.

---Whereupon the hearing adjourned at 12.30 p.m.
until 2 p.m.



---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Mr. Frere, I think you were at Submission No. 2 at the bottom of page 9, is that right?

MR. FRERE: I think Mr. Patterson had something to file first, Mr. Chairman.

MR. PATTERSON: I mentioned it to you a moment ago, Mr. Frere, but we are not quite ready. There are certain of the matters we asked for from the Saskatchewan Government which I thought we would produce now but decided we should do so at the end of this submission. Thank you.

MR. FRERE: Before we proceed with Submission No. 2, Mr. Chairman, I think it might be as well if Mr. Wadeson were to explain the interchange by the use of this graph, so I would ask Mr. Wadeson to explain the graph.

MR. WADESON: Mr. Chairman, this is part of the technical discussion that we had planned to introduce later, but I think it might be quite appropriately related to a question that was asked this morning and that concerned the permanence or non-permanence in international contracts in relation to this interchange.

To describe that pictorially, we have a graph in which the first month is not visible to the audience, but it is August. Each of these divisions is a month, horizontally along the bottom of the scale, and it shows the period of August to



April.

The vertical scale is in megawatts which, by way of information, is 1,000 kilowatts.

The red line at the top of the graph shows requirements for Cominco as to power in kilowatts, and the dotted line follows in a much more wavy course, showing the capability of the Cominco system during this storage release period of August to April.

For purposes of these calculations we have selected the worst storage release season of record. I think it is understandable that in our industrial and domestic commitments we are interested specifically in firm power, that is, power having a rate of 100 per cent, regardless of the season of the year or water conditions, that we must be able to produce that power; so when we are making an appraisal of our resource situation, we invariably take the most adverse water supply conditions that we have on record.

Now, the part that is blocked out in blue here shows that we have, in the full month of August and for the first half of September, a deficiency of power which amounts, in the worst condition, to about 250,000 kilowatts; quite a large amount.

Now, even if it were possible to make arrangements with the United States at this time of the year, they have surplus power available, that is, on the main stem of the Columbia River, they are spilling water, and that water could be passed through their turbines and generate power to fill in the deficiency that Cominco has.

After the 15th of September they stop



spilling on the main stem plant on the Columbia and start to release storage and, obviously, as soon as they start to release on our tributary, then we have adequate or more than adequate water, and we would be able to repay them as indicated on this yellow block, which, by the way, is an exact equivalent number of kilowatt hours to this (indicating).

Now, that is a distinct incentive, itself, to both companies to maintain any contractual agreements that were made with respect to this interchange, because in the part of the year when we are desperately short of power they have a surplus, and we are returning that to them after they have stopped spilling water. In other words, we are taking their secondary energy from the flood season and returning it to them in the prime power part of their season. That, in itself, as I say, would be sufficient incentive to maintain these contracts.

Now, beyond that we have certain other arrangements that could be made along exactly similar lines and still preserve a net interchange of zero at the end of the season which would give us additional benefits. If, after we had returned borrowings by this yellow section, which occurs roughly in the middle of November, we could continue to send our surplus here up to the end of December, which would place Canada in a credit condition as far as deliveries are concerned. Beyond that point, from the end of December until the end of March, the United States would then be in a position of returning the power that we had delivered to them in advance.



Now, there is another small amount of interchange at the end of the season but, for simplicity, I will omit that.

The significance of this additional interchange at the end of the calendar year and at the beginning of the next year is that when the main stem plants towards the end of the calendar year require storage releases, they require them in rather heavy volumes, so that the storage is upstream on the Pend-d'Orielle River, the Flathead, the Hungry Horse and Albany Falls, and they release water in greater volume than we can take care of at our Waneta plant.

We would generate to the full limit of our machine capability but, at the same time, there would be more than that and we would have to spill some. If we could have that excess water and reserve it for another part of the year, we would have generation where we wanted it in the early part of the next calendar year. However, the main stem plants must have that water at that time so that, instead of drawing it all from the upstream storage on the Pend-d'Orielle, we could draw some of it out of Kootenay Lake, and that is what this type of operation envisages.

In this part of the year, we are drawing just enough water from the American storage to generate at full capacity at our Waneta plant and we are supplementing this release by releases from the Kootenay plant. Later on, of course, the storage that has been conserved on the American side is then released through the Waneta plant and, at the same time, we require some supplemental energy



from the United States, which is depicted by this purple line. That particular operation gives us an average advantage on both sides of the line of about 12,000 kilowatts. That is, each country gains 12,000 kilowatts by that co-operative type of operation which would not otherwise be there. That is merely because we are putting the reserves to better use through that co-operative arrangement. I think those two items would supply sufficient incentive on both sides of the border not only to retain the physical facilities of the proposed interconnection but also to show that we would continue co-operative relations that were made contractually. Thank you.

THE CHAIRMAN: Thank you very much.

MR. FRERE: Submission No. 2: This submission is that, in proper instances and with adequate contractual arrangements for the protection of Canadian interests, the export of power be permitted.

The Exportation of Power and Fluids and Importation of Gas Act is premised on situations that arose out of the development of the power potential of Niagara Falls in 1907, and crystallized the policy of no firm commitment for the exportation of power, that licences should be on a surplus interruptible basis only, and that they would have to be renewed annually.

It is submitted that the policy should be modified to take into account the fact that a large hydro-electric development, to be economic, should be able to dispose of its output when the power plant commences operation. Many hydro sites require plants much larger than Canada's immediate require-



ments, and the plants are costly, so that every opportunity should be given to the plant operator to dispose of surplus power. Electric power can be transmitted now at much higher voltages, consequently, at much greater distances, than in 1907, but just as in the case of a petroleum or natural gas pipeline, the principal consideration in the construction and operation of a high-voltage transmission line is that sufficient power must be transported for such length of time as will permit the amortization of the costs of construction. The Company's submission is, therefore, that not only should export of power be permitted under proper circumstances, but, just as in the case of natural gas, it should be possible to obtain a licence to export power for twenty years, or for such time as is proper in the circumstances.

The Company does not advocate that any power should be permitted to be exported that is not surplus to Canada's requirements, but it does suggest that where there is a surplus of power the policy of the Government should be to permit its export provided there are adequate contractual arrangements for the protection of Canadian interests. Those arrangements, the Company submits, could be as follows:

(a) The purchaser of the power would agree that the contract would terminate at a fixed date, and in the case of an increasing demand for power, that the contract would terminate within a time certain after the demand reaches a certain maximum.



(b) The purchaser would agree that during the life of the contract and at the times and the rate agreed upon, the purchaser would instal thermal or other facilities to generate a quantity of power equivalent to the amount purchased, or make other arrangements for an equivalent supply, so that by the termination of the contract there would be no industrial activity or domestic consumption created in the purchaser's country which would be cut off from electric power.

(c) If necessary, the contract should be ratified by Treaty so as to make it recognized by the respective governments, as well as being an obligation of the contracting parties.

It has been suggested in some quarters that the export of power will result in the loss of industrial activity, and consequently of employment, in Canada. The same general statement may be made in respect of many basic commodities exported from Canada, but apparently it was not demonstrated to the Royal Commission on Canada's Economic Prospects that there were compelling reasons why the export of power should be prevented, while export of other forms of energy and other commodities is permitted. It does not need to be emphasized that hydro-electric power is a perpetual source of energy which cannot be stored, whereas all other forms of energy are wasting assets, the export of which reduces the amount available for the future. If contractual arrangements similar to those mentioned are made a condition of export, and only surplus power is exported which would be recaptured when there were



some means of using it in Canada, those conditions would prevent any export of power which might result in loss of industrial activity in Canada.

There would be no question then that present and foreseeable future requirements for hydro-electric power in Canada are fully taken care of before export is permitted, which is the same basis as that followed in permitting the export of gas from Alberta. The Company would point out that while it has been denied the right to export hydro-electric power, natural gas is being exported from southern Alberta to Montana, where it is available to the Company's competitors in the production of zinc, and is being exported from British Columbia into a pipeline in the Pacific Northwest United States from which natural gas is used by a competitor of the Company in the fertilizer industry. Also, it seems paradoxical that Canada is objecting to the United States curtailing imports of one form of energy, oil, while the Canadian Government has for years maintained a policy which has prevented the export of another, non-wasting form of energy, hydro-electric power.

THE CHAIRMAN: Mr. Frere, could you not use, from the other side of the border, the same reasoning with respect to the export of coal from Canada?

MR. FRERE: You mean, sir, with respect to the export of coal from the United States to Canada?

THE CHAIRMAN: That is right. Is that not being used by Canada to compete with American industry?



MR. FRERE: I believe so, sir, in Eastern Canada.

THE CHAIRMAN: So it is the same market?

MR. FRERE: The same market.

The Royal Commission on Canada's Economic Prospects said in its preliminary report, in 1956:

"In some part of the country, the efficient development of a large new project may require that it be designed to produce much more power than can be used immediately in the area of economic power transmission although the general growth of the area will require all the output over a period of years. Under these circumstances one possibility is to try, by low rates, to induce one of the relatively few industries that use very large amounts of power and for which power costs are therefore a very important factor, to locate in the area. The difficulty here, in settled or rapidly growing regions, is that such industries typically add relatively little to the diversified economic strength or to the employment opportunities of the region and permanently appropriate a large amount of power which a growing area will need for its own general expansion. In these circumstances there seems to be merit in permitting some part of the power from such a large new project to be exported where possible at economic rates for stated periods of years, after which it would be made available in the area for Canadian use. In this way,



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the interests of Canadian consumers, immediate and long term, would be properly protected. This would mean cheaper electricity to the general body of consumers immediately and a safeguarding of future electrical supply for the diversified requirements of the region. This policy would not, of course, apply to areas remote from settled centres where the development of hydro-electricity for industries requiring very large amounts of power seems to be desirable from every point of view, or to areas far from the United States border."



That situation has existed precisely in the case of the Company. The efficient development of the Pend-d'Orielle River required the production of more power than can be used immediately, although it is anticipated that eventually the Company's operations will require all the output. In 1954, the Company could have completed negotiations for the export and sale of power in the United States that would have realized substantial annual revenue. Negotiations were not completed because the Department of Trade and Commerce of Canada refused to recommend approval of an application for an export permit. The opinion of the Department was that no further licences for the export of power from sources in the Columbia Basin should be authorized until a comprehensive engineering and economic study has determined how the power potential can best be developed. The project for export has thus been delayed for more than three years with a consequent loss of revenue to the Company, of trade from Canada to the United States, of at least \$6,000,000. That revenue can, of course, never be regained, because the water has gone over the dam.

The Company respectfully submits, therefore, that apart altogether from a recommendation that enabling legislation be passed excluding the interchange of power from the operation of the Exportation of Power and Fluids and Importation of Gas Act, the Commission should ratify the recommendation of the Royal Commission on Canada's Economic Prospects regarding the export of power.

THE CHAIRMAN: Mr. Frere, you speak of the export of gas. You are referring to the Montana



export into Canada.

MR. FRERE: That is right

THE CHAIRMAN: You say they are a competitor. You leave the inference to be drawn that your Company is hurt through that. Would you go so far as to say that?

MR. FRERE: I cannot say that positively, sir. All we can say is that gas is being sold to the Anaconda Company which presumably replaces some other fuel, at a price I believe of 26¢ per MCF. We will have to pay more than that for gas at Trail.

I cannot say in using that gas in the development of zinc they are necessarily injuring our industry. It is just one of the factors we have of a competitor that is able to get one of the constituents for manufacturing its products at probably a better price than we can buy the same product in Canada.

That is not due altogether to the fact that the gas is imported to the United States. It is partly geographical. We are farther away from Alberta than would be the Anaconda Company.

THE CHAIRMAN: You and your associates have obviously given a lot of study to this problem. Would you feel on the export of energy or sources of energy from Canada that the end use of that export should be controlled from Canada?

MR. FRERE: I would not like to go that far, sir. We believe in freedom of enterprise, freedom of initiative, and I think that would be exacting controls which we certainly would not care to see extended to other commodities. If you do that with energy you may say, why not do it with



everything that may be manufactured.

Coming back to your previous point, perhaps I can give a better example of net injury to our industry, the case where we feel a competitor of ours is in a fortunate position in respect of the use of natural gas at Pasco, Washington. It is on the Pacific Northwest Pipelines which goes from the southern United States to Seattle and Portland and also takes gas from British Columbia from the West Coast Transmission Company.

At Pasco there is an ammonium plant which manufacturers ammonium from natural gas as a raw material, the same as we manufacture at Calgary from natural gas. The price of our natural gas at Calgary is approximately 15¢ per MCF. The centre of our market, our export market for ammonium and the fertilizer products of which ammonium is a constituent is approximately at Pasco, Washington, where there is an ammonium plant. The cost of transporting a ton of ammonium from Calgary to Pasco is \$24 in terms of natural gas. By the way, it takes 35,000 cubic feet of natural gas to make one ton of ammonium so if you relate the cost of transporting ammonium from Calgary to Pasco in terms of natural gas, which would be 35,000 into \$24, you get 69¢ per MCF. Add the 69¢ to the 15¢ which we pay for gas at Calgary and you have a total cost of 84¢. At Pasco, from the best information we were able to obtain, the company there pays 40¢ per MCF for natural gas. In other words, they have a 44¢ per MCF advantage over us at Calgary.



There again, I cannot say our Company is injured by that form of competition. So far we have been able to sell all our products. But if the price of natural gas goes up in Alberta it can be readily appreciated that is one of our costs of manufacture and as our costs increase our competitive position becomes a little worse and so the circle in which we export our products centred around Pasco gradually gets drawn in. The higher our costs, the more difficult it is for us to market our products at a distance from the place of manufacture.

MR. COMMISSIONER BRITNELL: That is assuming the cost of gas at Pasco does not go up to your competitor.

MR. FRERE: That is correct.

THE CHAIRMAN: In spite of that terrific differential the ammonium plant is good and is something you would not want to get rid of and give away.

MR. FRERE: Definitely not. I have not given that illustration as an alarming situation.

THE CHAIRMAN: Coming back again to my question. I take it that you would not wish to see any control put on the end use of exported energy?

MR. FRERE: I would say no.

THE CHAIRMAN: That being so you are arguing for the export of electrical energy.

MR. FRERE: That is right.

THE CHAIRMAN: How do you know that at the other end of the line that energy will not be



used in an operation which is directly competitive with your own?

MR. FRERE: It could be and, of course, we would have to meet that situation just as we do in the case of natural gas.

THE CHAIRMAN: It does seem, though, there is some area where you don't want to export a source of energy that will be utilized for the purpose of building up competition to Canadian industry. Is that not right? How can you prevent it?

MR. FRERE: I think we can prevent it by virtue of the fact there is nothing to compel us to sell power or energy.

THE CHAIRMAN: You mean once you get an export permit you would cut it off?

MR. FRERE: I would say if we found that there was an industry -- for instance, let us consider a simple case that we are permitted to export power that a competitor of ours comes to us and says we would like to buy some of your power and we knew they were going to manufacture lead and zinc and if they did we could not sell our own product, I think we could say, "We prefer not to sell you the power."

THE CHAIRMAN: Would not the simple case be that you would sell power across the line to another power company?

MR. FRERE: That would be the ordinary course.

THE CHAIRMAN: You surely have no control whatsoever, in fact it loses its identity the minute it gets into a transmission line.



MR. FRERE: That normally would certainly be the case.

THE CHAIRMAN: You could never cut it off if the export permit is for twenty years. You enter into a contract. It is twenty years. On an annual basis it is another matter.

MR. FRERE: I think I might come to the point even if we export power and it enters into the Northwest Power Pool the amount we would export would be relatively small.

THE CHAIRMAN: We must not take a specific case. If it is good for you it is good for the rest of Canada. I don't mean that unkindly. If it is applied in one case it has to be a policy.

MR. FRERE: I quite appreciate as a matter of policy that might be so, yet I would hope certainly in dealing with water power matters that they be dealt with on individual cases rather than on a basis of overall policy. When we come to submission number 4 in our brief that is one of the reasons why we feel there should not be a national authority which is likely to deal with the overall policy to the extent it is going to prejudice one section of the country as against the interests of another section of the country.

THE CHAIRMAN: But with an overall authority that could advise and also regulate, there might be able to be a thermal plant where you propose to put a hydro plant and utilize coal and give you just as cheap electricity.

MR. FRERE: If it fitted into the overall operation of course there would be no objection to that.

MR. ANDERSON: I would like to clarify that.



It seems to me there is one point in this brief we have been talking about the interchange of energy and the long-term situation. The export and sale of power is quite a different matter. I don't know that we are thinking in terms of a long-term contract for the actual sale of surplus energy.

THE CHAIRMAN: I am not relating my remarks to you particularly or your brief. I am using you as a guinea pig to get some ideas and to pick your brains. I cannot distinguish in my mind at the moment that the interchange of power does not involve the export of power.

MR. ANDERSON: At the expense of the Canadian resources?

THE CHAIRMAN: I would not say at the expense of the Canadian resource necessarily. It is a commodity going across the international boundary and leaving its native jurisdiction.

MR. ANDERSON: It could only go across in this case.

THE CHAIRMAN: It is all right

MR. PATTERSON: Before we leave that subject, Mr. Chairman, in respect to the Pasco, Washington, plant, do you know the ownership of that plant?

MR. FRERE: That is owned by Phillips Chemical Company.

MR. PATTERSON: Your Company has no interest?

MR. FRERE: Our Company has no interest.

Mr. Chairman, shall I proceed?

THE CHAIRMAN: Yes, please.

MR. FRERE: Submission No.3: The Company's third submission suggests that the Commission should recommend that the duty imposed on electric power



exported from Canada be withdrawn, since no export duties are imposed on coal, oil or natural gas.

Section 4 of the Exportation of Power and Fluids and Importation of Gas Act states that the Governor in Council may make regulations imposing export duties upon power exported from Canada. From the inception of the Electricity and Fluid Exportation Act, in 1907, until 1955, the Governor in Council was empowered to impose duties not only upon power but also upon natural gas, petroleum and other fluids. When the present Act was revised in 1955, the Minister of Trade and Commerce at that time explained that while an export tax of 3/100 of a cent per kilowatt hour, or roughly \$2.00 per horsepower per annum, had been imposed since 1925 on electricity exported, no tax had ever been levied on the export of gas or other fluids, and it was not the policy of the government to impose one.

If it is recognized that the export of electric power should be permitted, as was done by the Royal Commission on Canada's Economic Prospects, there would appear to be no valid reason why the export of that commodity should be discouraged by the impost of an export duty, when natural gas and other forms of energy are not subjected to a duty.

It is submitted, therefore:

(i) In the event of interchange of power, where the same quantity of power is returned as is borrowed, there should, of course, be no export duty levied because nothing has in the result been sent from Canada or sold.

(ii) That where electric power is exported no



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duty should be levied, because the safeguards requisite for protection of Canadian interests are imposed by Statute and there should be no discrimination, such as presently exists, in levying a duty on one form of energy, electric power, but not on another, such as natural gas.



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Submission No. 4: The Royal Commission on Energy is empowered to make a recommendation concerning the extent of authority that might best be conferred on a national energy board to administer. The Company suggests that a National Energy Board dealing with such various forms of energy as petroleum, natural gas, coal and electric power might be inclined to sacrifice the interests of one section of the country or of one industry in order to establish a principle for the benefit of another section of the country or another industry. The establishment of a National Energy Board that would be empowered to administer an energy policy in such a manner that its permission would have to be sought, would only add to the complexities and delays that already must be encountered when dealing with the export of natural gas and power.

The tendency of a National Energy Board would, of necessity, be to encroach on provincial autonomy, particularly of the western provinces. The production and sale of any form of energy cannot be unrelated to the distribution and marketing of the product. Individual initiative should not be discouraged with policies that, in the guise of serving national interest, serve to tighten the reign of Federal Government control and add to the multitude of regulatory agencies.

The Company submits therefore that a National Energy Board, if established, should act only in an advisory capacity and should not be empowered to assert any influence or authority that



would in any way detract from the rights of provincial governments to deal with provincial natural resources, and that the Royal Commission on Energy should recommend that the International River Improvements Act should not be administered in such manner as to detract from those rights.

MR. COMMISSIONER LADNER: May I ask a question, please?

The effect of the last portion of your brief, as I understand it, is that the National Energy Board would not really be a regulatory board, it would be an advisory board advising the Government, is that what you meant?

MR. FRERE: That is right.

MR. COMMISSIONER LADNER: Then, who would actually grant the rights to an applicant whether it be in respect of export of electricity or natural gas?

MR. FRERE: That is, export from Canada to the United States?

MR. COMMISSIONER LADNER: Yes.

MR. FRERE: We would assume The Department of Trade and Commerce would continue to administer its present functions and an export permit would still be required from that Department.

MR. COMMISSIONER LADNER: I understand, then, you would prefer that a Government Department should carry out the functions of a regulatory nature and export licenses rather than a national board with some degree of finality?

MR. FRERE: That is right. When you say "regulatory nature", we are thinking in terms of



the present administration of the Act; that is, in the same manner as they now administer it.

THE CHAIRMAN: You are thinking in terms that such a board would delay matters and add to complications that already exist and further cause difficulties in the obtaining of such an export permit, are you not?

MR. FRERE: We feel that might be the case.

THE CHAIRMAN: Yet, there is a certain inconsistency where you say earlier in your brief that each one of these interchanges or exports or whatever you wish to call it, or either one, all power should, in order to make everything really binding, be confirmed by Treaty, and I would think it would take far longer to get a Treaty through Congress and the Parliament of Canada than it would through any board established in Canada.

MR. FRERE: I think we put that forward as a suggestion of something that might be done but not necessarily that should be done. We had in mind these four propositions that might be considered for making a contract that could be terminated.

THE CHAIRMAN: You are using it as a reason to indicate that one should not be afraid of what might occur by reason of breach of contract.

MR. FRERE: That is right; that is our submission. That notice should be sufficient, but if those who have the final say in the matter consider it not sufficient, it could be completely covered by ratification by Treaty.

MR. COMMISSIONER LADNER: Would the



construction of Mica Dam have a beneficial effect on your company's operations where additional power is concerned?

THE CHAIRMAN: Before you answer that question, for those of us who do not come from British Columbia, where is Mica Dam?

MR. COMMISSIONER LADNER: Mica Dam is about 92 miles out of Revelstoke.

MR. FRERE: I think Mr. Anderson might answer that.

MR. ANDERSON: Mica Creek is just around the corner from Big Bend.

MR. COMMISSIONER LADNER: How far is Mica Creek down the watercourse to your operations in Trail?

MR. WADESON: Roughly, 250 miles.

THE CHAIRMAN: Is Mica Creek a river or are you just damming a creek?

MR. ANDERSON: Mica Creek is a river.

MR. COMMISSIONER LADNER: If a dam were constructed there, would that aid the development of power that you require down in your area so that this complicated question, if it were such, of arrangement with the United States would not have to be made?

MR. ANDERSON: I think I can say, to the contrary, it would be detrimental. What I was going to point out, if Mica Creek Dam is built and water is released which, by arrangement with the States or otherwise, goes across and can be used by a Canadian and American plant, they would not necessarily have to release water down the Pend-d'Orielle



at that time.

MR. COMMISSIONER LADNER: Unless that was part of the arrangement.

MR. ANDERSON: Unless there was such an arrangement.

MR. COMMISSIONER LADNER: Could that be done to your advantage? Supposing you had an arrangement with Mica Dam as to the control and flow of the water, at the same time could an arrangement be made covering Pend-d'Orielle and the flow of water down Pend-d'Orielle?

MR. ANDERSON: I think you could only do it from electrical interconnections.

THE CHAIRMAN: Is this matter presently before the International Joint Commission? Does Mica Creek come into that?

MR. ANDERSON: Yes.

THE CHAIRMAN: It is part of the Columbia River watershed?

MR. COMMISSIONER LADNER: There has been an Engineering Board operating for eight or nine years.

MR. ANDERSON: Yes, the International Engineering Board.

MR. WADESON: It is not in my province to say so, but I understand that report will be ready sometime in the Fall of this year.

THE CHAIRMAN: With all due deference to my fellow Commissioners, let us not cross into the territory of the International Joint Commission.

Do you have some further technical data you wanted to show the Commission?



MR. FRERE: There is one further matter Mr. Wadeson might explain that I think might be of interest to the Commission.

MR. WADESON: It was in connection with the termination of contracts. In the case of actual export, suppose our company had contracted to deliver certain quantities of power to some interest in the United States, I doubt that there would be any difficulty in terminating such a contract or, in effect, recapturing that power for the benefit of Canada. Possibly the chief reason is the point that has been brought up before, that the system to which we would be exporting is, roughly, 20 times bigger than our own.

MR. COMMISSIONER LADNER: That is the Northwest Pool.

MR. FRERE: That is right. That system is 20 times bigger than ours. In addition to that, we would not contemplate selling in perpetuity, and we would have made contractual arrangements before that time with adequate notice. There is no difficulty at all about replacing it; it is merely a matter of the cost of replacing it. Currently, various interests in the Northwest Power Pool are reaching a stage where they must introduce a large base of thermal power into their system; so, if it were a case of exploring a region and looking for an equivalent hydro site, we could foresee some difficulty, but that is not the case any longer. Many of the replacements of energy within the next 20 years must be thermal and it is a matter of a two or three-year job to replace any power we would be



exporting by thermal.

THE CHAIRMAN: The export of thermal power is by permit issued from Ottawa for electricity is for a year's duration, but if it is not going to be renewed, does it not provide for reasonable notice to be given?

MR. WADESON: I will have to refer that to our solicitor.

MR. FRERE: My understanding, sir, is that it is merely a case of getting annual renewal of the license irrespective of what contractual terms you may have entered into.

THE CHAIRMAN: Do you know, Dr. Hearn?

DR. HEARN: My recollection is it is just an annual renewal.

THE CHAIRMAN: I thought there was a provision somewhere that in the event it was not renewed notice had to be given.

DR. HEARN: I do not know; I do not remember. I have never run into that difficulty.

MR. FRERE: Section 7 of the regulation states: "(1) A licence to export power or oil shall terminate on the last day of March next following its effective date or on such earlier date of termination as may be stated in the licence."

In other words, a licence to export power or oil terminates on the last day of March of each year.

MR. PATTERSON: Mr. Chairman, so that we do not get into a legal argument, we had better take a look at the regulations, because sub-section 8 has something, perhaps, to say on that.



THE CHAIRMAN: What does it say?

MR. PATTERSON: "8. Subject to any extension of time that may be authorized by the Minister, where the holder of a licence desires to renew his licence, he shall apply for a further licence not later than one month before the date of termination of his existing licence."

As I read that I think the Minister is entitled to give some extension of time to these things.

THE CHAIRMAN: Gentlemen, does that conclude what you wish to day?

MR. FRERE: That completes our submission. Thank you very much.

THE CHAIRMAN: Thank you very much, gentlemen, for coming to Regina to accommodate us, which you have done. I realize that and we are grateful. You have raised quite a number of points here, and I assure you we will do our best to give them the fair consideration that they all deserve.

MR. FRERE: Thank you.

MR. PATTERSON: Mr. Chairman, you will recall we requested of the Province of Saskatchewan, tables on production under M.P.R. control expressing as a percentage the actual production as compared with possible control, and I now have a table from the Province in that regard. It could go in as R-17-3.

---EXHIBIT NO. R-17-3: Tables of Production Under M.P.R. control compared with possible control.

THE CHAIRMAN: Before adjourning, I would like, on behalf of the Commission and myself, to



express our appreciation to the people of Saskatchewan, the citizens of Regina, for their many courtesies and kindnesses while we have been here, and particularly to Premier Douglas and Mr. Brockelbank and other of his colleagues, Mr. Lee and Mr. Borrowman, for the arrangements that were made and the manner in which we have been made to feel at home in this place, and we are very grateful and we thank them all from the bottom of our hearts.

I believe, Mr. Parkinson, this terminates our hearings in Regina.

MR. PARKINSON: That concludes our business in Regina.

THE CHAIRMAN: The hearings in Regina of the Royal Commission on Energy are now concluded.

---Whereupon the hearings adjourned at 3.00 p.m.,
to be resumed in Victoria, B.C. on April 21, 1958.

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